Matatiele Local Municipality

ANNUAL FINANCIAL STATEMENTS

30-Jun-11

31 August 2011

MATATIELE LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS 30 JUNE 2011

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MATATIELE LOCAL MUNICIPALITY
Parameters to be completed for Current Year

Name of Authority	MATATIELE LOCAL MUNICIPALITY
Financial Year-end	30 June 2011
End of Next Year	30 June 2012
End of Current Year	30 June 2011
End of Previous Year	30 June 2010
End of Base Year	30 June 2009
Current Year	2011
Previous Year	2010
Base Year	2009
Next Financial Year	2011/2012
Current Financial Year	2010/2011
Previous Financial Year	2009/2010
Comparative Financial Year	2011/10 / 2010/09
Start of Current Year	01 July 2010
Start of Previous Year	01 July 2009

MATATIELE LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

For the year ended

30-Jun-11

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 1 to 92, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councilor's as disclosed in note 31 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

D.C. T. NAKIN MUNICIPAL MANAGER	31-Aug-11

MATATIELE LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2010/11 financial period is set out in Directive 4 and Directive 5 issued by the Accounting Standards Board (ASB) on 11 March 2010.

2. KEY FINANCIAL INDICATORS

The following indicators give some insight into the financial results of the year under review.

Financial Statement Ratios:

INDICATOR	2011	2010
Surplus / (Deficit) before Appropriations	45 074 598	42 224 230
Surplus / (Deficit) at the end of the Year	145 736 226	87 226 137
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	25.63%	25.75%
Remuneration of Councillors	7.70%	10.58%
Depreciation and Amortisation	10.03%	10.11%
Impairment Losses	0.63%	7.15%
Repairs and Maintenance	5.85%	7.98%
Interest Paid	0.04%	0.07%
Bulk Purchases	11.13%	11.81%
Contracted Services	3.95%	6.79%
Grants and Subsidies Paid	24.19%	7.82%
General Expenses	10.78%	11.93%
Current Ratio:		
Creditors Days	40	77
Debtors Days	51	36

The increase in the ratio for Debtors Days, calculated on Trade Receivables from Exchange Transactions less provision for impairment and VAT Receivable, is mainly due to an increase in the electricity and refuse debtors. Bad debt written off is R466,157 (2010: R4,108,958). The provision for doubtful debts increased to R17,643,299 (2010: R14,329,451). During 2009/10 the municipality implemented a 'Pay-and-Win' campaign during which the municipality offered discounts for debtors who settled their accounts early. This resulted in debtors paying earlier and a decrease in the Trade Receivables from Exchange Transactions.

Creditor days have decreased to 59 days (2010: 77 days). This is due to measures that were implemented during 2010/11 in order to decrease the payment period especially on contract payments.

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D".

The overall operating results for the year ended 30 June 2011 are as follows:

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	16 992 123	57 037 320	(70.21)%	-	-
Operating income for the year	192 431 972	147 616 344	30.36%	229 340 065	(16.09)%
Appropriations for the year	(19 772 349)	(80 238 807)	(75.36)%	-	-
	189 651 746	124 414 857	52.43%	229 340 065	(17.31)%
Expenditure:					
Operating expenditure for the year	147 357 374	105 392 114	39.82%	161 343 958	(8.67)%
Sundry transfers		(10 655 758)	0.00%	-	-
Closing surplus / (deficit)	44 329 050	16 992 123	160.88%	67 996 107	-
	191 686 424	111 728 480	71.56%	229 340 065	(16.42)%
	(2 034 678)				

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	123 566 139	119 157 931	3.70%	229 333 631	(46.12)%
Expenditure	88 451 759	73 050 527	21.08%	123 230 559	(28.22)%
Surplus / (Deficit)	35 114 380	46 107 404	(23.84)%	106 103 072	-
Surplus / (Deficit) as % of total income	28.42%	38.69%		46.27%	

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	111 505	2 777	3915.30%	6 434	1633.05%
Expenditure	110 627	-	-	325 756	-
Surplus / (Deficit)	878	2 777	(68.40)%	(319 322)	-
Surplus/(Deficit) as % of total income	0.79%	100.00%		-4963%	

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	8 666 556	5 043 973	71.82%	11 151 651	(22.28)%
Expenditure	6 056 102	5 638 991	7.40%	11 089 448	(45.39)%
Surplus / (Deficit)	2 610 454	(595 018)	(538.72)%	62 203	-
Surplus / (Deficit) as % of total income	30.12%	(11.80)%		0.56%	

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R16,395,061 (2010: R12,448,772). Tariffs levied for electricity are subject to administered adjustments. Matatiele Local Municipality distributes electricity in the town of Matatiele only. in the rest of it's area, grid is supplied by ESKOM.

The envisaged introduction of REDS (Regional Electricity Distribution Suppliers), where electricity will be distributed a regional supplier, will impact materially on the Annual Financial Statements of the municipality.

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Income	60 083 352	23 349 392	157.32%	63 249 229	(5.01)%
Expenditure	25 449 201	16 042 418	58.64%	26 698 195	(4.68)%
Surplus / (Deficit)	34 634 151	7 306 974	373.99%	36 551 034	-
Surplus / (Deficit) as % of total income	57.64%	31.29%		57.79%	

3.5 Water Services:

Water and sanitation is supplied directly to the residents by Alfred Nzo District Municipality.

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R 35 616 347 (2010: R 35 502 717).

The capital expenditure of R35 616 347 was financed as follows:

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Percentage Variance %	Budgeted 2010/2011 R	Variance actual/ budgeted %
Capital Replacement Reserve	8 337 400	2 675 636	211.60%	25 317 084	(67.07)%
Landfill Site	1 523 571				
Grants and Subsidies	25 755 376	32 827 082	(21.54)%	72 186 449	(64.32)%
External Loans	-	-	-	23 000 000	-
	35 616 347	35 502 718	0.32%	120 503 533	(70.44)%

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2011	2010
Capital Replacement Reserve	23.41%	7.54%
Landfill-site	4.28%	-
Grants and Subsidies	72.31%	92.46%
Total	100.00%	100.00%

Property, Plant and Equipment is funded to such a great extent from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

DETAILS	2011	2010
Variance per Category:		
Budgeted surplus before appropriations	67 996 107	67 510 239
Revenue variances	(36 908 093)	(34 414 894)
Expenditure variances:		
Employee Related Costs	11 325 851	1 514 504
Remuneration of Councillors	287 635	983 448
Depreciation and Amortisation	(3 838 984)	(7 250 426)
Impairment Losses	1 071 009	(6 532 776)
Repairs and Maintenance	3 592 988	2 146 727
Interest Paid	2 703 991	151 212
Bulk Purchases	2 112 256	(2 698 772)
Contracted Services	794 966	1 573 288
Grants and Subsidies Paid	(14 185 073)	17 857 899
General Expenses	10 236 883	1 383 780
Loss on disposal of Property, Plant and Equipment	(114 938)	-
Actual surplus before appropriations	45 074 598	42 224 230

DETAILS	2011	2010
Variance per Service Segment:		
Budgeted surplus before appropriations	67 996 107	53 190 664
	1 568 306	1 954 504
Finance and Administration	5 685 531	3 262 189
Planning and Development	147 079	(6 214 480)
Health	13 181	120 608
Community and Social Services	(3 322 307)	(999 875)
Housing	320 200	(1 860 057)
Public Safety	-	501 678
Sport and Recreation	-	279 177
Waste Management	2 548 251	2 316 476
Roads and Transport	1 554 423	(1 529 856)
Inter-departmental Charges		
Admin & Corporate Services	(2 234 024)	
Other		
Electrical services	(1 916 883)	1 801 109
Total before inter-departmental charges and appropriations	72 359 863	52 822 137
Correction of error prior years		12 642 033
Actual surplus before appropriations	72 359 863	65 464 170

5.2 Capital Budget:

DETAILS	Actual 2010/2011 R	Actual 2009/2010 R	Variance actual 2011 / 2010 R	Budgeted 2009/2010 R	Variance actual/ budgeted R
Community Assets	3 950 500	8 724 384	(4 773 884)	8 574 143	150 241
Infrastructure	48 367 092	24 401 096	23 965 996	982 609	23 418 487
Land & Building	2 084 368	0	2 084 368	2 430 000	(2 430 000)
Other	6 469 560	2 377 237	4 092 323	550 000	1 827 237
Investment Property	-		-	4 665 563	(4 665 563)
Intangible Assets	13 655	343 130	(329 475)	103 301 219	(102 958 089)
	60 885 175	35 845 847	25 039 328	120 503 534	(84 657 687)

6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2011 amounted to R430 299 706 (2010: R 364 674 379) and is made up as follows:

Capital Replacement Reserve	28 274 894
Capitalisation Reserve	(0)
Government Grants Reserve	73 132 282
Accumulated Surplus	44 329 050
	145 736 226

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The Capitalisation Reserve is utilised to offset the cost of depreciation of assets funded from Internal Advances (not applicable anymore) over the lifespan of such assets.

The Government Grants Reserve is utilised to offset the cost of depreciation of assets funded from government grants over the lifespan of such assets. Amounts equal to the cost of assets acquired from the grants are transferred to the reserve annually.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to the Statement of Change in Net Assets for more detail.

7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2010 was R153,908 (30 June 2008: R624,758).

Finance leases to the value of R30,490 were entered into during the year to acquire office machines.

8. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2011 was R2,958,546 (2010: R3,122,956).

This liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 18 for more detail.

9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R4,788,998 (2010: R4,244,734) and is made up as follows:

Provision for Long-term Service	742 630
Provision for Rehabilitation of Land-fill Sites	4 046 368
	4 788 998

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 19 for more detail.

10. CURRENT LIABILITIES

Current Liabilities amounted R37,281,356 (2010: R32,992,428) and is made up as follows:

Consumer Deposits	Note 12	305 619
Provisions	Note 13	2 463 315
Creditors	Note 14	8 943 871
Unspent Conditional Grants and Receipts	Note 15	19 596 406
Operating Lease Liability	Note 16	15 787
Bank Overdraft	Note 7	5 923 899
Current Portion of Long-term Liabilities	Note 17	18 446
		37 267 343

Non-current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R366 511 005 (2010: R345 302 687).

Refer to Note 8 for more detail.

12. INTANGIBLE ASSETS

The net value of Intangible Assets were R285 000 (2010: R285 000).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 9 for more detail.

13. INVESTMENTS

The municipality held Investments to the value of R5,295,774 (2010: R4,610,850).

The bulk of these investments are ring-fenced for purposes of the Capital Replacement Reserve, Unspent Conditional Grants and security for Long-term Liabilities, with the result that no significant amounts are available for own purposes.

Refer to Note 11 for more detail.

14. LONG TERM RECEIVABLES

There were no Long term receivables as at 30 June 2011 (2010: None).

15. CURRENT ASSETS

Current Assets amounted R103,883,390 (2010: R74,066,823) and is made up as follows:

Inventory	Note 3	548 850
Non-Current assets held for sale	Note 4	67 300
Trade receivables from Exchange Transactions	Note 5	13 997 049
Trade receivables from Non-Exchange Transactions	Note 6	10 355 388
Cash and Cash Equivalents	Note 7	79 060 846
		104 029 433

Refer to the indicated Notes for more detail.

16. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 15, 27 and 36, for more detail.

17. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 54.

18. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format and is now presented as such on continuous basis.

19. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Budget & Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER
31-Aug-11

MATATIELE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 June 2011

	Note	2011 R	2010 R
ASSETS			
Current Assets		**104 029 433**	**74 062 402**
Inventory	**3**	548 850	548 925
Non-current Assets Held-for-Sale	**4**	67 300	67 300
Trade receivables from exchange transactions	**5**	13 997 049	4 635 644
Trade receivables from non-exchange transactions	**6**	10 355 388	4 174 173
Cash and Cash Equivalents	**7**	79 060 846	64 636 360
Non-Current Assets		**381 378 326**	**359 956 792**
Property, Plant and Equipment	**8**	366 039 296	345 302 687
Intangible Assets	**9**	285 000	285 000
Investment Property	**10**	9 758 255	9 758 255
Non-current Investments	**11**	5 295 774	4 610 850
Total Assets		**485 407 759**	**434 019 194**
LIABILITIES			
Current Liabilities		**37 267 343**	**32 930 157**
Consumer Deposits	**12**	305 619	309 913
Provisions	**13**	2 463 315	1 742 579
Creditors	**14**	8 943 871	10 334 996
Unspent Conditional Grants and Receipts	**15**	19 596 406	18 959 989
Operating Lease Liabilities	**16**	15 787	37 395
Bank Overdraft	**7**	5 923 899	1 409 824
Current Portion of Long-term Liabilities	**17**	18 446	135 461
Non-Current Liabilities		**7 538 529**	**7 204 599**
Long-term Liabilities	**17**	-	18 446
Retirement Benefit Liabilities	**18**	2 749 530	2 941 420
Non-current Provisions	**19**	4 788 999	4 244 734
Total Liabilities		**44 805 872**	**40 134 756**
Total Assets and Liabilities		**440 601 887**	**393 884 438**
NET ASSETS		**440 601 887**	**393 884 438**
Statutory Funds	**20**	1 562 515	1 496 434
Reserves	**21**	293 303 146	305 161 866
Accumulated Surplus / (Deficit)	**22**	145 736 226	87 226 137
Total Net Assets		**440 601 887**	**393 884 438**

MATATIELE LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 June 2011

	Note	Actual 2011 R	Actual 2010 R	Budget 2011 R
REVENUE				
Revenue from Non-exchange Transactions				
Property Rates	**23**	12 775 595	13 203 902	20 155 000
Property Rates - Penalties imposed and collection charges	**25**	-	-	-
Fines		966 187	962 407	954 937
Government Grants and Subsidies Received	**27**	135 377 298	101 035 851	166 128 750
Licences and Permits		1 059 482	1 016 846	950 000
Public Contributions and Donations	**28**	15 000	-	-
Revenue from Exchange Transactions				
Service Charges	**25**	34 293 155	24 524 886	34 213 050
Rental of Facilities and Equipment	**26**	499 200	498 288	696 434
Interest Earned - External Investments	**24**	4 254 880	3 305 996	3 310 000
Interest Earned - Outstanding Debtors	**24**	1 789 433	1 663 970	1 785 000
Dividends Received		-	-	
Royalties Received		-	-	
Other Income	**29**	1 401 742	1 393 107	1 140 294
Other Gains on Continued Operations	**47**	-	-	
Profit on Sale of Land:-		-	11 090	6 600
Sale of Land		-	11 090	-
Cost of Sales				
Total Revenue		**192 431 972**	**147 616 344**	**229 340 065**
EXPENDITURE				
Employee Related Costs	**30**	37 770 574	27 139 217	49 096 425
Remuneration of Councillors	**31**	11 345 842	11 154 896	11 633 477
Depreciation and Amortisation	**32**	14 784 257	10 655 758	10 945 273
Impairment Losses	**33**	928 991	7 532 776	2 000 000
Repairs and Maintenance		8 617 612	8 412 748	12 210 600
Finance Costs	**34**	54 589	71 688	2 758 580
Bulk Purchases	**35**	16 395 061	12 448 772	18 507 317
Contracted Services		5 823 180	7 161 382	6 618 146
Grants and Subsidies Paid	**36**	35 640 749	8 245 626	21 455 676
General Expenses	**37**	15 881 581	12 569 252	26 118 464
Loss on Disposal of Asset		114 938	-	-
Total Expenditure		**147 357 374**	**105 392 114**	**161 343 958**
SURPLUS / (DEFICIT) FOR THE YEAR		**45 074 598**	**42 224 230**	**67 996 107**

MATATIELE LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 June 2011

Description	Housing Development Fund	Revaluation Reserve	Capital Replacement Reserve	Capitalisation Reserve	Government Grants Reserve	(1 813 476) Accumulated Surplus / (Deficit)	Accumulated Surplus/(Deficit) Account	Total
	R	R	R	R	R	R	R	R
Balance at 1 July 2009	**757 238**	**20 395 873**	**7 773 163**	**8 868 539**	**115 751 995**	**57 037 320**	**189 431 017**	**210 584 128**
Surplus / (Deficit) for the year						42 224 230	42 224 230	42 224 230
Write back of depreciation due to offsetting of accumulated surplus	-	(7 833 010)			(2 995 547)	10 828 557	7 833 010	-
Change in Accounting policy		292 599 003		(8 868 539)	(95 522 738)	(45 809 101)	(150 200 378)	142 398 625
Property, Plant and Equipment purchased			(2 675 639)			2 675 639	-	-
Inventory write-off						(4 772)	(4 772)	(4 772)
Vat receivable from expenses not claimed						143 859	143 859	143 859
Transfer to CRR	687 798		14 900 000			(14 900 000)	-	687 798
Transfer to Housing Development Fund	2 777					(2 777)	(2 777)	-
Grants utilised to obtain PPE					33 170 212	(33 170 212)	-	-
Interest received	48 621		-				-	48 621
Assets disposal			(142 583)		(24 849)		(167 432)	(167 432)
Balance at 30 June 2010	**1 496 434**	**305 161 866**	**19 854 941**	**(0)**	**50 379 073**	**16 992 123**	**87 226 137**	**393 884 437**
Balance at 1 July 2010	**1 496 434**	**305 161 866**	**19 854 941**	**(0)**	**50 379 073**	**16 992 123**	**87 226 137**	**393 884 437**
Surplus / (Deficit) for the year						45 074 598	45 074 598	45 074 598
Write back of depreciation due to offsetting of accumulated surplus	-	(11 858 720)	20 184		(2 512 227)	14 389 403	11 897 360	38 640
Transfer to Housing Development Fund	6 480					(6 480)	(6 480)	-
Property, Plant and Equipment purchased			(8 337 400)	-		8 337 400	-	-
Transfer to CRR			16 737 296			(16 737 296)	-	-
Grants utilised to obtain PPE					25 755 376	(25 755 376)	-	-
Interest received/(paid)	59 600		-				-	59 600
			(127)		(489 940)	4 059	(486 008)	(486 008)
							-	-
Balance at 30 June 2011	**1 562 515**	**293 303 146**	**28 274 894**	**(0)**	**73 132 282**	**44 329 050**	**145 736 226**	**440 601 886**

Details on the movement of the Funds and Reserves are set out in Note 20, 21 and 22.

MATATIELE LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 June 2011

	Note	2011 R	2010 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilised in) Operations	**41**	39 982 418	45 147 002
Interest received	**25**	6 044 313	4 969 966
Interest paid	**35**	(54 589)	(71 688)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		**45 972 143**	**50 045 280**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	**7**	(35 616 347)	(35 502 717)
Purchase of Intangible Assets	**8**	-	(343 130)
Purchase of Investment Property	**11**	-	-
Proceeds on Disposal of Property, Plant and Equipment		375 000	-
Proceeds on Disposal of Non-Current Assets held for sale		-	-
Proceeds on Disposal of Investment Property		-	-
(Increase) / decrease in Non-current Investments	**10**	(684 925)	(596 341)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**(35 926 272)**	**(36 442 188)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans (repaid)/ taken up	**17**	(135 461)	527 834
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		**(135 461)**	**527 834**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**6**	**9 910 410**	**14 130 926**
Cash and Cash Equivalents at the beginning of the year		63 226 536	49 095 610
Cash and Cash Equivalents at the end of the year		73 136 946	63 226 536

1 BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2010 and 30 June 2011 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

(a) is required by a Standard of GRAP; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1.2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 10.2 on Revenue from Exchange Transactions and Accounting Policy 10.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 7.1 on Financial Assets Classification and Accounting Policy 7.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: Financial Instruments - Presentation and IAS 39: Financial Instruments - Recognition and Measurement.

1.2.3 Impairment of Financial Assets

Accounting Policy 7.4 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: Financial Instruments - Recognition and Measurement, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

1.2.4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment properties

As described in Accounting Policies 3.3, 5.2 and 4.2 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1.2.5 Impairment: Write down of Property, Plant and Equipment and Inventories

Accounting Policy 6 on PPE - Impairment of assets and Accounting Policy 4.2 on Intangible assets - Subsequent Measurement, Amortisation and Impairment and Accounting Policy 8.2 on Inventory - Subsequent measurement describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17: Property, Plant and Equipment, GRAP 12: Inventory and GRAP 102: Intangible assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management.

1.2.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 13.3, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 18 and 19 to the Annual Financial Statements.

1.2.7 Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in Notes 12, 19 respectively. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1.3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1.4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a going concern basis.

1.5 OFFSETTING

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early

GRAP 18 Segment Reporting - issued March 2005
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued
GRAP 24 Presentation of Budget Information in Financial Statements - issued November
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - October 2009

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the

Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2 ACCUMULATED SURPLUS

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

2.1 Housing development fund / Housing operating account

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

• The Housing Development Fund is cash-backed, and invested in accordance with the investment policy of the municipality.

• The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the MEC for Human Settlements.

• Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.

• Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

2.2 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/ (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

2.3 Other Reserves

The Municipality creates and maintains reserves in terms of specific requirements.

2.3.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.

Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

2.3.2 Capitalisation Reserve

On the implementation of GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit.

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plan and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, including for Infrastructure Assets, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

3.3 Depreciation

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end:

	Years		Years
Infrastructure		**Other**	
Roads and Paving	10 - 100	Buildings	25 - 30
Electricity	15 - 60	Specialist Vehicles	10 - 15
Water	15 - 100	Other Vehicles	05 - 10
Sewerage	15 - 60	Office Equipment	03 - 15
Landfill Sites	10 - 65	Furniture and Fittings	05 - 15
Housing	30	Watercraft	15 - 20
Pedestrian Malls	15 - 30	Bins and Containers	05 - 15
		Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	02 - 15
Community			
Improvements	25 - 30		
Recreational Facilities	15 - 30		
Security	15 – 25		

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3.6 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3.7 Housing Development Fund Assets

The Housing Development Fund contains letting schemes that is included in Council's Property Plant and Equipment. All surpluses generated from the letting schemes are transferred to the Housing Development Fund.

3.8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or losses arising from derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

4 INTANGIBLE ASSETS

4.1 Initial Recognition

Identifiable non–monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

4.3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4.4 Transitional provisions

The fair values of intangible assets recognised in terms of GRAP 102 have been disclosed for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

5 INVESTMENT PROPERTY

5.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

5.2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

5.4 Transitional Provisions

Investment properties recognised in terms of GRAP 16 have been presented for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 4.

6 Impairment of assets

6.1 Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

6.2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of non-cash generating asset's fair value less costs to sell and its value in use. The value in use for non-cash generating asset is the present value of the asset’s remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.
A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

6.3 Transitional provisions

The estimated useful lives and depreciation methods will be reviewed for the year ended 30 June 2011 and will be applied retrospectively where practicable, and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3 and ASB Directive 4.

7 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument.

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised Cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

7.1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

TYPE OF FINANCIAL ASSET	CLASSIFICATION IN TERMS OF IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

7.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:

(i) Fair value through profit or loss; or

(ii) Other financial liabilities (Financial liabilities measured at amortised cost)

(iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

7.3 Initial and Subsequent Measurement

7.3.1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to group entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

7.3.2 Financial Liabilities:

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

7.4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

7.4.1 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

7.4.2 Financial assets carried at amortised cost

Accounts receivables encompass long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.
A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

7.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

7.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

8 INVENTORIES

8.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

8.2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

9 NON-CURRENT ASSETS HELD-FOR-SALE

9.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

9.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

10 REVENUE RECOGNITION

10.1 General

Revenue, excluding VAT where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

10.2 Revenue from Exchange Transactions

10.2.1 Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

10.2.2 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.

- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

10.2.3 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

10.2.4 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

10.2.5 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

10.3 Revenue from Non-exchange Transactions

10.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

10.3.2 Fines

Fines constitute both spot fines and summonses for which revenue is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

10.3.3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

10.3.4 Other Donations and Contributions

Donations and Contributions are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

10.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

10.4 Transitional Provisions

Revenue is initially recognised at fair value for the year ended 30 June 2010 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 and SAICA circular 09/2006.

11 GOVERNMENT GRANTS AND RECEIPTS

Equitable share allocations are recognised revenue at the start of the financial year if no time-based restrictions exist.

11.1 Conditional Grants and receipts

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

11.2 Conditional grants and receipts of a capital nature

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferror has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

12 PROVISIONS

Provisions are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

12.1 Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

13 EMPLOYEE BENEFITS

13.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13.2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

13.2.1 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13.3 Defined Benefit Plans

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

13.3.1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

13.3.2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

13.3.3 Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 47 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

14 LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

14.1 The Municipality as Lessee
Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

14.2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality’s net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality’s net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

14.3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

15 BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

16 GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

17 VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

18 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

20 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

21 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

22 RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

23 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

24 COMPARATIVE INFORMATION

24.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

24.2 Current year comparatives

Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and forms part of the Annual Financial Statements.

25 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

26 COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality

27 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

	2011	2010
	R	R

1 GENERAL INFORMATION

Matatiele Local Municipality (the municipality) is a local government institution in Matatiele, Eastern Cape. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction and overview of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by The Constitution.

2 *Revaluation surplus*

The Revaluation Reserve arises on the revaluation of Land and Buildings. Where revalued Land or Buildings are sold, the portion of the Revaluation Reserve that relates to that asset, and is effectively realised, is transferred directly to Accumulated Surplus.

The Revaluation Surplus is reconciled as follows:

	2011 R	2010 R
Balance at beginning of year	305 161 866	20 395 873
Surplus / (Deficit) realised from Revaluation	-	-
Change in Accounting policy		292 599 003
Depreciation offset to Income Statement	(11 858 720)	(7 833 010)
Balance at end of year	**293 303 146**	**305 161 866**

3 INVENTORY

	2011 R	2010 R
Consumable Stores - at cost	546 180	550 676
Medallions - at cost	2 669	2 669
Total Inventory	**548 850**	**553 346**

Inventories are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

Inventory to the value of R1,327 (2010: R13,724) was written off during the year.

4 NON-CURRENT ASSETS HELD-FOR-SALE

	2011 R	2010 R
Balance at beginning of year	67 300	209 886
Disposal of asset		(142 586)
Additions during the year		
Reclassification of asset		
Property Held-for-Sale - at cost	67 300	67 300
Other Assets Held-for-Sale - at cost	-	-
Total Assets classified as Held-for-Sale	67 300	67 300
Liabilities associated with Assets classified as Held-for-Sale	-	-
Net Assets classified as Held-for-Sale	**67 300**	**67 300**

5 TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2011			
Service Debtors:	31 640 349	(17 643 299)	13 997 049
Assessment Rates	14 196 236	(13 321 658)	874 578
Electricity	5 144 557	(283 717)	4 860 840
VAT receivable	7 248 316	-	7 248 316
Refuse	5 051 240	(4 037 924)	1 013 315
Total of Trade Receivables from Exchange Transactions	**31 640 349**	**(17 643 299)**	**13 997 049**

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2010			
Service Debtors:	18 965 095	(14 329 451)	4 635 644
Assessment Rates	13 028 815	(11 579 999)	1 448 816
Electricity	1 982 792	(40 775)	1 942 017
VAT receivable	942 070	-	942 070
Refuse	3 011 418	(2 708 678)	302 740
Total of Trade Receivables from Exchange Transactions	**18 965 095**	**(14 329 451)**	**4 635 644**

	2011	2010
	R	R

Consumer Debtors are billed monthly, latest end of month. No interest is charged on trade receivables until the 30th of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality enforces its approved credit control policy to a limited extent ensure the recovery of Consumer Debtors.

The municipality receives applications for services that it processes. Deposits are required to be paid for all electricity accounts opened. There are no consumers who represent more than 5% of the total balance of Consumer Debtors.

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

The fair value of Consumer Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and Consumer Debtors as well as the current payment ratio's of the municipality's Consumer

Vat is payable on the payment basis. Only once payment is received from debtors, VAT is paid over to SARS.

	2011	2010
	R	R
5.1 Ageing of Consumer Debtors		
Rates: Ageing		
Current:		
0 - 30 days	(922)	585 873
Past Due:		
31 - 60 Days	61 021	485 849
61 - 90 Days	4 455	377 094
91 - 120 Days	372 297	357 287
121 - 150 Days	251 417	155 465
+ 150 Days	13 507 968	11 067 246
Total	**14 196 236**	**13 028 815**
Electricity: Ageing		
Current:		
0 - 30 days	(83 887)	1 746 276
Past Due:		
31 - 60 Days	1 391 657	174 650
61 - 90 Days	512 458	21 091
91 - 120 Days	354 852	8 029
121 - 150 Days	246 539	2 509
+ 150 Days	2 722 938	30 237
Total	**5 144 557**	**1 982 792**
Refuse: Ageing		
Current:		
0 - 30 days	(2 334)	45 914
Past Due:		
31 - 60 Days	500 438	145 857
61 - 90 Days	304 983	110 620
91 - 120 Days	202 240	100 387
121 - 150 Days	182 018	88 573
+ 150 Days	3 863 896	2 520 067
Total	**5 051 240**	**3 011 418**

5.2 Summary of Debtors by Customer Classification

	Household	Industrial/ Commercial	National and Provincial Government
	R	R	R
As at 30 June 2011			
Current:			
0 - 30 days	386 225	1 044 847.47	435 137.26
Past Due:			
31 - 60 Days	251 318	147 920.15	422 432.23
61 - 90 Days	312 661	192 850.90	466 298.91
91 - 120 Days	297 356	46 794.42	334 132.35
+ 120 Days	15 692 534	491 711.68	3 869 812.91
Sub-total	16 940 094	1 924 125	5 527 814
Less: Provision for Impairment	(12 900 848)	(538 506)	(4 203 945)
Total Debtors by Customer Classification	4 039 246	1 385 619	1 323 868

As at 30 June 2010

			2011 R	2010 R
Current:				
0 - 30 days	522 762	900 168.00	955 133.00	
Past Due:				
31 - 60 Days	368 435	280 630.15	157 639.00	
61 - 90 Days	290 905	123 547.22	94 353.00	
91 - 120 Days	268 943	105 238.75	91 522.00	
+120 Days	12 507 417	437 454.00	918 877.00	
Sub-total	13 958 463	1 847 038	2 217 524	
Less: Provision for Impairment	(12 776 360)	(542 693)	(1 010 399)	
Total Debtors by Customer Classification	**1 182 103**	**1 304 345**	**1 207 125**	

5.3 Reconciliation of the Provision for Impairment

	2011 R	2010 R
Balance at beginning of year	14 329 452	15 919 363
Contribution during year	3 313 848	2 613 826
Amounts written off as uncollectable	-	(4 203 737)
Balance at end of year	**17 643 300**	**14 329 452**

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Consumer Debtors has been made for all consumer balances outstanding for periods exceeding 90 days based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is high due to the relatively small credit base. However, management believe that there is no further credit provision required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality does not hold collateral over these balances. In the IGR Forum the payment of Government dues are discussed and followed up.

5.4 Ageing of impaired Consumer Debtors

	2011	2010
0 - 30 Days	-	-
	-	-
61 - 90 Days	-	-
91 - 120 Days	678 282	465 704
+ 120 Days	16 965 018	13 863 748
Total	**17 643 300**	**14 329 452**

6 TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2011	2010
Health Subsidy Control	965 701	714 306
Sundry Debtors Control	53 005	44 603
Housing debtors	20 124	33 644
Debtors Interest	70 618	129 231
LU Framework DBSA	-	283 871
DME Electricity	-	992 947
Pre-paid expenses	629 961	-
Debtors Sundry	10 097 813	7 115 876
S Zuko Consulting	266 687	
	12 103 909	9 314 478
Less: Provision for Impairment	(2 005 419)	(5 140 304)
Total Trade Receivables from Non-Exchange Transactions	**10 098 489**	**4 174 173**

Health Subsidy Control relates to expenses incurred by the municipality on an agency basis on behalf of the Provincial Government , a sundry debtor is raised which will be recovered.

Sundry Debtors Control relates to monthly cellphone account of Councillors for the month of June 2011 which was deducted from their salary in July 2011 this matter is discussed on the IGR Forum.

	2011 R	2010 R

Debtors Sundry relates to ALFRED Nzo District Municipality and Sisonke District Municipality for transfer of water services. This mattter is discussed on the IGR Forum.

Pre-paid expenses relates to expenditure incurred for a Strategic Planning Workshop held from the 3 -6 July 2011, but paid for during June 2011.

S Zuko is a creditor was erroneously paid twice. This amount has since been covered.
The management of the municipality is of the opinion that the carrying value of Trade Receivables from Non-Exchange Transactions approximate their fair values.

6.1 Ageing of Trade Receivables from Non-exchange transactions

	2011 R	2010 R
Current:		
0 - 30 days	4 342 043	1 982 402
Past Due:		
31 - 60 Days	6 375	103 575
61 - 90 Days	2 340	209 256
91 - 120 Days	4 983	8 273
121 - 150 Days	107 934	4 030 297
+ 150 Days	7 640 233	2 980 676
Total	**12 103 909**	**9 314 478**

6.2 Summary of Debtors by Customer Classification

	Gross R	Provision for Impairment R	Net balances R
2011			
Current:			
0 - 30 days	4 342 043	-	4 342 042.85
Past Due:			-
31 - 60 Days	6 375	-	6 374.67
61 - 90 Days	2 340	(2 046)	294
91 - 120 Days	4 983	(89 642)	(84 658)
+ 120 Days	107 934	(1 913 732)	(1 805 798)
+ 150 Days	7 640 233		7 640 233
Less: Provision for Impairment	12 103 909	(2 005 419)	10 098 489
Total Debtors by Customer Classification	12 103 909	(2 005 419)	10 098 489

6.3 Reconciliation of Provision for Impairment

	2011	2010
Balance at beginning of year	5 140 304	221 351
Impairment Losses recognised	(3 134 885)	4 918 953
Balance at end of year	**2 005 419**	**5 140 304**

The Provision for Bad Debts was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the balances outstanding as at 30 June 2011.

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is high due to the relatively small credit base. However, management believe that there is no further credit provision required in excess of the Provision for Impairment.

The total amount of the Provision for Impairment created is R3,134,885 (2010: R4,918,953) and the following loans and receivables are included therein:

	2011	2010
Debtors Sundry	2 005 419	5 140 304
Total Provision for Impairment on Trade Receivables from Non-Exchange Transactions	**2 005 419**	**5 140 304**

	2011 R	2010 R

7 BANK, CASH AND CASH EQUIVALENTS

	2011 R	2010 R
Bank, Cash and Cash Equivalents	140 514	1 973 269
Investment Deposits	78 920 332	62 663 091
Total Bank, Cash and Cash Equivalents	**79 060 846**	**64 636 360**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

7.1 Current investment deposits

	2011 R	2010 R
Call Deposits	78 920 332	62 663 091
Total Current Investment Deposits	**78 920 332**	**62 663 091**

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 2.65 % to 13.93 % per annum.

Deposits of R14,589,968 (2010: R8,935,726) are ring-fenced and attributable to Unspent Conditional Grants.

Deposits of R28,942,147 (2010: R8,202,576) are ring-fenced and attributable to the Capital Replacement Reserve.

The Municipality has the following bank accounts:

7.2 Bank Accounts

	2011 R	2010 R
Transmission Account		
Standard Bank - Matatiele - Account number 060435224		
Cash book balance at beginning of year	1 972 019	141 196
Cash book balance at end of year	139 264	1 972 019
Bank statement balance at beginning of year	1 972 019	89 775
Bank statement balance at end of year	139 264	1 972 019
Primary Bank Account		
First National Bank - Matatiele - Account number 62108495187		
Cash book balance at beginning of year	(1 409 824)	(1 356 596)
Cash book balance at end of year	(5 923 899)	(1 409 824)
Bank statement balance at beginning of year	1 036 864	4 038 945
Bank statement balance at end of year	(182 214)	1 036 864

Interest on overdrawn current accounts are charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

7.3 Cash and Cash equivalents

	2011 R	2010 R
Cash Floats and Advances	1 250	1 250
Cash on hand in Cash Floats, Advances and Equivalents	1 250	1 250

The management of the municipality is of the opinion that the carrying value of Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

8 PROPERTY, PLANT AND EQUIPMENT

The Municipality has taken advantage of the transitional provisions set out in ASB Directive 4. The Municipality is in the process of itemising all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 31 August 2011.

30 June 2011

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Community	Heritage	Other	Housing Development Fund	Leased Infra-structure	Total
	R	R	R	R	R	R	R	R
Carry values at 1 July 2010	**22 913 228**	**231 077 255**	**83 460 072**	**-**	**7 852 132**	**-**	**-**	**345 302 687**
Cost	22 914 800	238 972 867	83 470 051	-	12 587 002	-	-	357 944 720
- *Completed Assets*	*34 950 740*	*128 479 321*	*30 225 007*	-	*29 815 018*	-	-	*223 470 086*
- *Under Construction*	-	-	-	-	-	-	-	-
- *Correction of error: Under construction*		*(1 918 032)*		-		-	-	*(1 918 032)*
- *Correction of error: Completed assets*	*(12 035 940)*	*112 411 578*	*53 245 044*	-	*(17 228 016)*	-	-	*136 392 666*
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation:	(1 572)	(7 895 612)	(9 979)	-	(4 734 870)	-	-	(12 642 033)
- *Cost*	-	-	-	-	-	-	-	-
- *Correction of error*	*(1 572)*	*(7 895 612)*	*(9 979)*	-	*(4 734 870)*	-	-	*(12 642 033)*
- *Revaluation*	-	-	-	-	-	-	-	-
Re-classification								
Impairment Losses	-	-	-	-	-	-	-	-
Capital under Construction - Completed	-	-	-	-	-	-	-	-
Other Movements	-	-	-	-	-	-	-	-
- Cost	-		-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-	-	-
Acquisitions	1 619 422	23 451 995	3 943 642	-	6 601 288	-	-	35 616 347
Borrowing Costs Capitalised	-	-	-	-		-	-	-
Capital under Construction - Additions				-	-	-	-	-
- *Cost*			*394 462*	-	-	-	-	*394 462*
- *Borrowing Costs Capitalised*	-	-	-	-	-	-	-	-
Increases in Revaluation	-	-	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-	-	-
Depreciation:	(574 119)	(9 276 911)	(3 398 314)	-	(1 534 913)	-	-	(14 784 257)
- *Based on Cost*	*(574 119)*	*(9 276 911)*	*(3 398 314)*	-	*(1 534 913)*	-	-	*(14 784 257)*
- *Based on disposal*	-	-	-	-	-	-	-	-
								-
Carrying value of Disposals:	-	-	-	-	(489 940)	-	-	(489 940)
- Cost	-	-	-	-	(644 711)	-	-	(644 711)
- Revaluation	-	-	-	-		-	-	-
- Accumulated Impairment Losses	-	-	-	-		-	-	-
- Accumulated Depreciation	-	-	-	-		-	-	-
- *Based on Cost*	-	-	-	-	*154 771*	-	-	*154 771*
- *Based on Revaluation*	-	-	-	-	-	-	-	-
								-
Carrying value of Transfers to Held-for-Sale:	-	-	-	-	-	-	-	-
- Cost	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-	-	-
								-
Carry values at 30 June 2011	**23 958 531**	**245 252 339**	**84 399 862**	**-**	**12 428 567**	**-**	**-**	**366 039 299**
Cost	24 534 222	262 424 862	87 808 155	-	18 543 579	-	-	393 310 818
- *Completed Assets*	*24 534 222*	*262 424 862*	*87 413 693*	-	*18 543 579*	-	-	*392 916 356*
- *Under Construction*			*394 462*	-	-	-	-	*394 462*
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation:	(575 691)	(17 172 523)	(3 408 293)	-	(6 115 012)	-	-	(27 271 519)
- *Cost*	*(575 691)*	*(17 172 523)*	*(3 408 293)*	-	*(6 115 012)*	-	-	*(27 271 519)*
- *Revaluation*								

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2010

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Community	Heritage	Other	Housing Development Fund	Leased Infra-structure	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2009	**34 950 740**	**103 821 599**	**21 500 623**	**-**	**27 462 628**	**-**	**-**	**187 735 590**
Cost	34 950 740	103 821 599	21 500 623	-	27 462 628	-	-	187 735 590
- *Completed Assets*	*34 950 740*	*103 821 599*	*21 500 623*	-	*27 462 628*	-	-	*187 735 590*
- *Under Construction*	-	-	-	-	-	-	-	-
Correction of error (Note 33)	-		-	-	-	-	-	
Revaluation	-		-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation:	-	-	-	-	-	-	-	-
- *Cost*	-	-	-	-	-	-	-	-
- *Revaluation*	-	-	-	-	-	-	-	-
								-
Acquisitions		24 401 096	8 724 384	-	2 377 237	-	-	35 502 717
Donated vehicles and equipment					-			-
Borrowing Costs Capitalised	-	-	-	-	-	-	-	-
Capital under Construction - Additions	-	-	-	-	-	-	-	-
- *Cost*	-	-	-	-	-	-	-	-
- *Borrowing Costs Capitalised*	-	-	-	-	-	-	-	-
Increases in Revaluation	-	-	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-	-	-
Depreciation:	-	-	-	-	-	-	-	*(10 655 758)*
- *Based on Cost*	-	-	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-	-	-
								-
Carrying value of Disposals:	-	-	-	-	-	-	-	-
- Cost						-	-	-
- Revaluation						-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-	-	-
								-
Carrying value of Transfers to Held-for-Sale:	-	-	-	-	-	-	-	-
- Cost	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-	-	-
- *Based on Cost*	-	-	-	-	-	-	-	-
- *Based on Revaluation*	-	-	-	-	-	-	-	-
								-
Decreases in Revaluation	-	-	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-	-	-
Capital under Construction - Completed	-	-	-	-	-	-	-	-
Other Movements	-	256 626	-	-	(24 847)	-	-	231 779
- Cost	-	-	-	-	-	-	-	-
- Reclassification	-	256 626	-	-	-	-	-	256 626
- Correction of error - classification of leases	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	(24 847)	-	-	(24 847)
- *Based on Cost*	-	-	-	-		-	-	-
- *Based on Revaluation*	-	-	-	-	-	-	-	-
								-
Carrying values at 30 June 2010	**22 913 228**	**231 077 255**	**83 460 072**	**-**	**7 852 132**	**-**	**-**	**345 302 687**
Cost	22 914 800	238 972 867	83 470 051	-	12 587 002	-	-	357 944 720
- *Completed Assets*	*34 950 740*	*128 479 321*	*30 225 007*	-	*29 815 018*	-	-	*223 470 086*
- *Under Construction*	-	-	-	-	-	-	-	-
- *Correction of error: Under construction*		*(1 918 032)*	-	-	-	-	-	*(1 918 032)*
- *Correction of error: Completed assets*	*(12 035 940)*	*112 411 578*	*53 245 044*	-	*(17 228 016)*	-	-	*136 392 666*
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation:	(1 572)	(7 895 612)	(9 979)	-	(4 734 870)	-	-	(12 642 033)
- *Cost*	-	-	-	-	-	-	-	-
- *Correction of error*	*(1 572)*	*(7 895 612)*	*(9 979)*	-	*(4 734 870)*	-	-	*(12 642 033)*
- *Revaluation*								

	2011 R	2010 R

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Property, plant and equipment in accordance with GRAP 17 for the financial years up to 30 June 2010.

The municipality has identified and measured all Property, plant and equipment in terms of GRAP 17 for the financial year ended 30 June 2011. The balances of the Property, plant and equipment have been retrospectively restated accordingly.

All infrastructure assets were valued as at 30 June 2011 using the depreciated replacement cost approach.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

8.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use:

	2011 R	2010 R
At Original Cost:	3 763 549	2 403 635
Land and Buildings	-	-
Infrastructure	47 520	7 333
Community	-	-
Heritage	-	-
Other	3 716 030	2 396 302

8.2 Assets pledged as security:

No assets are pledged as security.

8.3 Actual versus Budget (acquisition of PPE)

Description	2010/2011 Opening Balance	2010/2011 Total Additions	2010/2011 Budget	2010/2011 Variance	2010/2011 Variance	Explanation of Significant Variances greater than 5% versus Budget
	R	R	R	R	%	
Community Assets	83 470 051	3 943 642	25 441 143	(21 497 501)	(84.50)	Delay in planning stage of projects
Infrastructure	238 972 867	23 451 995	60 434 218	(36 982 223)	(61.19)	Loan budgeted for not granted
Land & Building	22 914 800	1 619 422	3 000 000	(1 380 578)	(46.02)	Delay in planning stage of projects
Other	12 587 002	6 601 288	30 841 451	(24 240 163)	(78.60)	Loan budgeted for not granted
Investment Property	9 758 255	-	-	-	0.00	
Intangible Assets	285 000	-	786 721	(786 721)	(100.00)	Quotations exceeded budget and therefore not implemented
Total	**367 987 975**	**35 616 347**	**120 503 533**	**(84 887 186)**		

9 INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	**285 000**	**285 000**

The movement in Intangible Assets is reconciled as follows:

	Computer Software R	Total R
Carry value as at 1 July 2010	285 000	285 000
Cost	2 144 868	2 144 868
Correction of error: Cost	(1 859 868)	(1 859 868)
Accumulated Amortisation	-	-
Correction of error: Accumulated Amortisation	-	-
Re-classified during the Year:	-	-
At Cost	-	-
At Accumulated Revaluation	-	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	-	-
Acquisitions during the Year:	-	-
Purchased	-	-
Donated	-	-
Work-in-Progress at Year-end		
Increases in Revaluations during the Year	-	-
Amortisation during the Year:	-	-
Purchased	-	-
Internally Developed	-	-
Impairment Losses during the Year	-	-
Disposals during the Year:	-	-
At Cost	-	-
At Accumulated Revaluation	-	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	-	-
Decreases in Revaluations during the Year	-	-
Reversal of Impairment Losses during the Year	-	-
Transfers during the Year:	-	-
At Cost	-	-
At Accumulated Revaluation	-	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	-	-
Carrying values at 30 June 2011	285 000	285 000
Cost	285 000	285 000
Accumulated Revaluation	-	-
Accumulated Amortisation	-	-
Accumulated Impairment Losses		

	Computer Software R	Total R
Carry value as at 1 July 2009	1 801 738	1 801 738
Cost	1 801 738	1 801 738
Accumulated Revaluation	-	-
Accumulated Amortisation	-	-
Accumulated Impairment Losses	-	-
Re-classified during the Year:	-	-
At Cost	-	-
At Accumulated Revaluation	-	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	-	-
Acquisitions during the Year:	343 130	343 130
Purchased	343 130	343 130
Donated	-	-

Work-in-Progress at Year-end		
Increases in Revaluations during the Year	-	-
Amortisation during the Year:	-	-
Purchased	-	-
Internally Developed	-	-
Impairment Losses during the Year	-	-
Disposals during the Year:	-	-
At Cost	-	-
At Accumulated Revaluation	-	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	-	-
Decreases in Revaluations during the Year	-	-
Reversal of Impairment Losses during the Year	-	-
Transfers during the Year:	-	-
At Cost	-	-
At Accumulated Revaluation	-	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	-	-
Carrying values at 30 June 2010	285 000	285 000
Cost	2 144 868	2 144 868
Correction of error: Cost	(1 859 868)	(1 859 868)
Accumulated Amortisation	-	-
Correction of error: Accumulated Amortisation		

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

9.1 Significant Intangible Assets:

The municipality's intangible assets only comprise of computer related software.

Significant Intangible Assets, that did not meet the recognition criteria for Intangible Assets as stipulated in GRAP 102 and SIC 32, include Website Costs incurred during the last two financial years have been expensed and not recognised as Intangible Assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

10 INVESTMENT PROPERTY

	2011 R	2010 R
At Cost less Accumulated Depreciation	**9 758 255**	**9 758 255**

The movement in Investment Property is reconciled as follows:

	2011 R	2010 R
Carrying values at 1 July	9 758 255	9 758 255
Cost	9 758 255	9 758 255
Accumulated Depreciation	-	-
Accumulated Impairment Losses	-	-
Re-classified during the Year:	-	-
At Cost	-	-
At Accumulated Depreciation	-	-
At Accumulated Impairment	-	-
Acquisitions during the Year	-	-
Depreciation during the Year	-	-
Impairment Losses during the Year	-	-
Disposals during the Year:	-	-
At Cost	-	-
At Accumulated Depreciation	-	-
At Accumulated Impairment	-	-
Reversal of Impairment Losses during the Year	-	-
Transfers during the Year:	-	-
At Cost	-	-
At Accumulated Depreciation	-	-
At Accumulated Impairment	-	-
Carrying values at 30 June	9 758 255	9 758 255
Cost	9 758 255	9 758 255
Accumulated Depreciation	-	-
Accumulated Impairment	-	-

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

	2011	2010
Rental Revenue earned from Investment Property	6 480	2 777
Direct Operating Expenses - incurred to generate rental revenue	-	-
Direct Operating Expenses - incurred which did not generate rental revenue	-	-

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

10.1 Impairment of Investment Property

The municipality has not tested its items of Investment Property for any potential impairment losses on assets. Furthermore, no review of the useful lives or depreciation methods applied to items of Investment Property has been performed.

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Investment property in accordance with GRAP 16 for the financial years up to 30 June 2010.

The municipality has identifying and measured all Investment property in terms of GRAP 16 for the financial year ended 30 June 2011. The balances of the Investment property have been retrospectively restated accordingly.

11 NON-CURRENT INVESTMENTS

Financial Instruments		
Fixed Deposits	84 216 107	67 273 941
Total Investments		
All Investments	84 216 107	67 273 941
Less: Short-term Portion transferred to Current Investments	(78 920 332)	(62 663 091)
	5 295 774	**4 610 850**

Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 2.65 % to 5% per annum.

Deposits of R1,590,444 (2010: R795,350) are ring-fenced and attributable to the cash-portion of the Housing Development Fund.

629 961

The management of the municipality is of the opinion that the carrying value of Investments recorded at amortised cost in the Annual Financial Statements approximate their fair values.

12 CONSUMER DEPOSITS

Electricity	305 619	309 913
Total Consumer Deposits	**305 619**	**309 913**
Guarantees held in lieu of Electricity Deposits	**75 651**	**75 651**

Consumer Deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values. The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

13 PROVISIONS

Bonus		791 594	478 728
Performance Bonus		1 038 993	410 071
Current Portion of Post-retirement Medical Aid Benefits Liability	Note 18	209 016	181 536
Current Portion of Non-Current Provisions	Note 19	423 712	672 244
Long-term Service		153 954	169 397
Land-fill site		269 758	502 847
Total Provisions		**2 463 315**	**1 742 579**

Bonus is calculated on a 13th cheque attributable to all staff.

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The movement in current provisions are reconciled as follows:

Current Portion of Non-Current Provisions:

	Long-term Service R	Post-retirement R	Land-fill Sites R	Performance Bonuses R	Bonus R
30 June 2011					
Balance at beginning of year	169 397	181 536	502 847	410 071	478 728
Contributions to provision	(15 443)	27 480	(233 089)	628 922	312 866
Balance at end of year	**153 954**	**209 016**	**269 758**	**1 038 993**	**791 594**
30 June 2010					
Balance at beginning of year	113 814	160 286	419 555	410 071	432 302
Contributions to provision	55 583	21 250	83 292	-	46 426
Balance at end of year	**169 397**	**181 536**	**502 847**	**410 071**	**478 728**

14 CREDITORS

Trade Creditors	4 042 101	6 367 216
Payments received in advance	1 415 113	809 283
Leave provision	2 021 422	1 855 037
Income received in advance	409 648	317 043
Other Creditors	1 055 587	986 418
Total Creditors	**8 943 871**	**10 334 996**

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Income received in advance is due to payments received for hall hire and prepaid electricity.

Payments received in advance is consumer debtors' accounts paid in advance.

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

15 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Conditional Grants from Government	**19 596 406**	**19 022 260**
National Government Grants	6 153 009	5 562 619
Provincial Government Grants	6 375 109	10 031 527
Local Government Grants	835 986	2 427 952
Other Spheres of Government	6 232 303	1 000 162
Total Conditional Grants and Receipts	**19 596 406**	**19 022 260**

The amount for Unspent Conditional Grants and Receipts are deposited in ring-fenced investment accounts until utilised.

See Note 27 for the reconciliation of Grants from Other Spheres of Government.

The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were with held.

Refer to Appendix "F" for more detail on Conditional Grants.

16 OPERATING LEASE LIABILITIES / PAYABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

Balance at beginning of year	(37 395)	(21 411)
Operating Lease expenses	513 420	460 940
Operating Lease expenses - straight lined	(491 812)	(476 924)
Movement in Operating Lease Liability	21 608	(15 984)
Total Operating Lease Liabilities	**(15 787)**	**(37 395)**

16.1 Leasing Arrangements

The Municipality as Lessee:
Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 3 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

16.2 Amounts payable under Operating Leases

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

Buildings:	261 937	592 592
Up to 1 year	227 324	413 512
2 to 5 years	34 612	179 080
More than 5 years	-	-
Total Operating Lease Arrangements	**261 937**	**592 592**

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	513 420	460 940
Total Operating Lease Expenses	**513 420**	**460 940**

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office Equipment

No restrictions have been imposed on the municipality in terms of the operating lease agreements.

17 LONG TERM LIABILITIES

Annuity Loans	-	100 191
Finance Lease Liabilities	18 446	53 717
Government Loans	-	-
Sub-total	18 446	153 907
Less: Current Portion transferred to Current Liabilities:	(18 446)	(135 461)
Annuity Loans	-	(100 191)
Finance Lease Liabilities	(18 446)	(35 270)
Total Long-term Liabilities	**-**	**18 446**

Refer to Appendix A for more detail.

17.1 Summary of Arrangements

Annuity Loans are repaid over periods of 20 years (2010: 20 years) and at interest rates varying from 17.55% to 19% (2010: 16.72% to 17,55%) per annum. Annuity Loans are not secured.

Finance Lease Liabilities relates to equipment with lease terms of 3 years (2010: 3 years). The effective interest rate on Finance Leases is 10.5% (2010: 11,5%). Capitalised Lease Liabilities are secured over the items of vehicles and equipment leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

Refer to Appendix "A" for more detail on Long-term Liabilities.

17.2 Obligations under Finance Lease Liabilities

The Municipality as Lessee:
Finance Leases relate to Property, Plant and Equipment with lease terms not more than 3 years (2010: 3 years). The effective interest rate on Finance Leases is 10.5% (2010: 11,5%).

The municipality has the option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
Amounts payable under finance leases:	**2011 R**	**2010 R**	**2011 R**	**2010 R**
Within one year	18 447	35 270	18 447	35 270
In the second to fifth years, inclusive	-	18 451	-	18 451
	18 447	53 720	18 447	53 720
Present Value of Minimum Lease Obligations	**18 447**	**53 720**	**18 447**	**53 720**
Less: Amounts due for settlement within 12 months (Current Portion)			(18 447)	(35 270)
Finance Lease Obligations due for settlement after 12 months (Non-current Portion)			**-**	**18 451**

The municipality has finance lease agreements for the following significant classes of assets:
- Office Equipment

Included in these classes are the following significant leases:

(i) Photocopiers and telephone equipment		
- Instalments are payable monthly in arrears	Yes	Yes
- Average period outstanding (months)	12	12
- Average effective interest rate	10.50%	11.50%
- Average monthly instalment	R 2 321	R 3 884

(ii) Vehicles

- Instalments are payable monthly in arrears	Yes	Yes
- Average period outstanding (months). Lease settled prior to expiry during 2010/11	None	17
- Average effective interest rate, based on prime	11.00%	11.50%
- Average monthly instalment	R 1 740	R 1 373

18 RETIREMENT BENEFIT LIABILITIES

18.1 Post-retirement Health Care Benefits Liability

		2011 R	2010 R
Post-Employment Health Care Benefit Liability		2 958 546	3 122 956
		2 958 546	3 122 956
Transfer to Current Provisions	Note 13	(209 016)	(181 536)
Total Post-retirement Health Care Benefits Liability		**2 749 530**	**2 941 420**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2011 by Chanan Weiss of ARCH Actuarial Consulting, Fellow of the faculty of Actuaries and Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	33	32
Continuation Members (Retirees, widowers and orphans)	10	10
Total Members	**43**	**42**

The liability in respect of past service has been estimated as follows:

In-service Members	1 172 948	1 592 590
Continuation Members	1 785 598	1 530 366
Total Liability	**2 958 546**	**3 122 956**

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:
- Bonitas
- Keyhealth
- Samwumed

The Current-service cost for the year ending 30 June 2011 is estimated to be R156,541 whereas interest-cost for the year is estimated to be R279,760 the cost for the ensuing year is estimated to be R156,068 and R232,007 respectively (2010: R149,151 and R265,644 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	8.12%	9.22%
Health Care Cost Inflation Rate	7.20%	7.27%
Net Effective Discount Rate	1.82%	1.82%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	3 122 956	2 965 361
	436 301	414 795
Current service costs	156 541	149 151
Interest cost	279 760	265 644

Actuarial losses / (gains)	(419 175)	(96 914)
Liabilities extinguished on settlements	(181 536)	(160 286)
Present Value of Fund Obligation at the end of the Year	**2 958 546**	**3 122 956**
Total Recognised Benefit Liability	**2 958 546**	**3 122 956**

Plan assets

The plan is wholly unfunded and as such there are no plan assets.

Total employer contributions during the year amounted to:	181 536	160 286

The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	2 958 546	3 122 956
	2 958 546	3 122 956
Total Benefit Liability	**2 958 546**	**3 122 956**

The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	156 541	149 151
Interest cost	279 760	265 644
Actuarial losses / (gains)	(419 175)	(96 914)
Total Post-retirement Benefit included in Employee Related Costs	**17 126**	**317 881**

The history of experienced adjustments is as follows:

	2011 R	**2010 R**	**2009 R**	**2008 R**	**2007 R**
Present Value of Defined Benefit Obligation	2 958 546	3 122 956	2 965 361	-	-
Fair Value of Plan Assets	-	-	-	-	-

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

	R	**R**
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost in the ensuing year	3 880 800	4 044 300
Effect on the defined benefit obligation	3 371 000	3 557 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost in the ensuing year	2 246 900	2 408 400
Effect on the defined benefit obligation	2 624 000	2 765 000

The municipality expects to make a contribution of R209,016 (2010: R181,536) to the Defined Benefit Plans during the next financial year.

The transitional Defined Benefit Liabilities for Post-retirement Medical Aid Benefits have been recognised in the Annual Financial Statements of the municipality as at 30 June 2007 in terms of IAS 19, Employee Benefits, paragraph155(a). The municipality has elected to recognise the full increase in this Defined Benefit Liability immediately, thus the full transitional liability have been recognised as at 30 June 2008 .

19 NON-CURRENT PROVISIONS

Provision for Long Service Awards		896 584	883 362
Provision for Rehabilitation of Land-fill Site		4 316 126	4 033 616
		5 212 710	4 916 978
Transfer to Current Provisions			
Current portion of Long Service Awards	Note 13	(153 954)	(169 397)
Current portion of Rehabilitation of Land-fill site	Note 13	(269 758)	(502 847)
Total Liability		**4 788 998**	**4 244 734**

19.1 ***Long Service Awards***

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5 years and every 5 years thereafter of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2011 by Chanan Weiss of ARCH Actuarial Consulting CC. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other post retirement benefits are provided by the municipality.

The employees eligible for Long Service Awards, are made up as follows:

In-service Members (Employees)	209	184
Total	**209**	**184**

The liability in respect of past service has been estimated as follows:

In-service Members	896 584	883 362
Total Liability	**896 584**	**883 362**

The future service cost for the year ending 30 June 2012 is estimated to be R227,048, whereas the interest-costs is estimated to be R62,225 (2010: R259,264 and R77,762 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	7.58%	9.17%
General Salary Inflation	6.22%	6.49%
Net Effective Discount Rate	1.28%	2.52%

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	883 362	899 412
	317 506	337 026
Current service costs	244 131	259 264
Interest cost	73 375	77 762
Actuarial losses / (gains)	(134 887)	(239 262)
Liabilities extinguished on settlements	(169 397)	(113 814)
Present Value of Fund Obligation at the end of the Year	**896 584**	**883 362**
Total Recognised Benefit Liability	**896 584**	**883 362**

Plan assets

The plan is wholly unfunded and as such there are no plan assets.

Total employer contributions during the year amounted to:	169 397	113 814

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	896 584	883 362
	896 584	883 362
Total Benefit Liability	**896 584**	**883 362**

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	244 131	259 264
Interest cost	73 375	77 762
Actuarial losses / (gains)	(134 887)	(239 262)
Total Long Service Award included in Employee Related Costs	**182 619**	**97 764**

The history of experienced adjustments is as follows:

	2011 R	2010 R	2009 R	2008 R	2007 R
Present Value of Defined Benefit Obligation	896 584	883 362	899 412	-	-
Fair Value of Plan Assets	-	-	-	-	-

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

	2011 R	2010 R
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	1 279 843	1 280 819
Effect on the defined benefit obligation	945 000	928 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	550 313	519 429
Effect on the defined benefit obligation	852 000	842 000

The municipality expects to make a benefit payment of R153,954 (2010: R113,814) to the Defined Benefit Plans during the next financial year.

20. STATUTORY FUNDS

	2011	2010
Housing Development Fund:	1 562 514	1 496 434
Unappropriated Surplus	1 562 514	1 496 434
Total Statutory Funds	**1 562 514**	**1 496 434**

20.1 Housing Development Fund

The Housing Development Fund has its origin from Loans extinguished by Government on 1 April 1998 and the net of housing transactions appropriated to the fund thereafter. No separate Unappropriated Surplus Account for housing transactions was kept.

The Housing Development Fund contains all proceeds from housing developments, which include rental income and sale of houses. Monies standing to the credit of the Housing Development Fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Reconciliation of the Housing Development Fund:

	2011	2010
Balance at beginning of year	1 496 434	757 238
Allocation to HDF	6 480	687 798
Revenue:	59 600	51 398
Interest	59 600	48 621
Housing Rental Debtors	-	2 777
Less: Expenditure:	-	-
Balance at end of year	**1 562 514**	**1 496 434**

The Housing Development Fund is represented by the following Assets and Liabilities:

	2011	2010
Consumer Debtors	-	2 777
Cash and Cash Equivalents	1 562 514	1 493 657
Total Housing Development Fund Assets and Liabilities	**1 562 514**	**1 496 434**

21 RESERVES

Revaluation Reserve	293 303 146	305 161 866
Total Reserves	**293 303 146**	**305 161 866**

21.1 Revaluation Reserve

The Revaluation Reserve arises on the revaluation of Land and Buildings. Where revalued Land or Buildings are sold, the portion of the Revaluation Reserve that relates to that asset, and is effectively realised, is transferred directly to Accumulated Surplus.

Distributions from the Revaluation Reserve can be made where they are in accordance with the requirements of the municipality's accounting Policy and relevant case law. The payment of cash distributions out of the reserve is restricted by the terms of the municipality's Accounting policy. These restrictions do not apply to any amounts transferred to Accumulated Surplus. The Council do not currently intend to make any distribution from the Revaluation Reserve.

The following restrictions are placed on the distribution of the balance of the reserve:

Reconciliation of the Revaluation Reserve:

Balance at beginning of year	305 161 866	20 395 873
Revaluation	-	292 599 003
Other Transfers	-	(7 833 010)
Balance at end of year	**293 303 146**	**305 161 866**

Refer to Statement of Changes in Net Assets for more detail and the movement on Reserves.

22 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Capital Replacement Reserve	28 254 837	19 854 941
Capitalisation Reserve	0	(0)
Government Grants Reserve	73 132 282	50 379 073
Accumulated Surplus / (Deficit) due to the results of Operations	44 329 050	16 992 123
Total Accumulated Surplus	**145 716 169**	**87 226 137**

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

The **Capitalisation Reserve** equals the carrying value of the items of property, plant and equipment funded from the former legislated funds. The Capitalisation Reserve ensures consumer equity and is not backed by cash.

The **Government Grants Reserve** equals the carrying value of the items of property, plant and equipment financed from government grants. The Government Grants Reserve ensures consumer equity and is not backed by cash.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

23 PROPERTY RATES

	Property Valuations		**Actual Levies**	
	July 2011 R000's	**July 2010 R000's**	**2011 R**	**2010 R**
Residential	324 701	419 293	4 437 214	2 819 340
Commercial	725 939	728 968	6 109 131	10 394 410
Agricultural	401 663	414 603	437 777	180 573
Vacant land	27 336	11 367	4 562 422	177 326
Exempted Properties	110 729	14 430	(1 540 380)	(528 165)
Total Assessment Rates	**1 590 368**	**1 588 661**	**14 006 164**	**13 043 483**
(Plus)/less corrections			1 274 863.55	155 852.58
Plus: previous year interim rates			44 294.26	316 271.31
			12 775 595	**13 203 902**

Attributable to:		
Continuing Operations	12 775 595	13 203 902
	12 775 595	**13 203 902**

Assessment Rates are levied on the value of land and improvements, which valuation is performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The last valuation came into effect on 1 July 2009. The valuation has been performed by HCB Property Valuations CC (HCB). HCB is registered with the South African Council for the property valuers profession.

	2011	**2010**
The following rates charged and rebates given:	c/R	c/R
Residential tariff	0.013	0.013
Business tariff	0.0156	0.0156
Agriculture tariff	0.00325	0.00325
Residential exemption first R30,000 on valuation	-30 000	-30 000
Residential rebate	35%	35%
Business rebate	10%	10%
Public Benefit Organisation (PBO)	100%	100%

	2011	**2010**
	R	**R**

24 INTEREST EARNED

Property Rates:		
Penalties imposed and Collection Charges	-	
	-	**-**
External Investments:		
Investments	4 254 880	3 305 996
	4 254 880	**3 305 996**
Outstanding Debtors:		
Outstanding Billing Debtors	1 789 433	1 663 970
	1 789 433	**1 663 970**
Total Interest Earned	**6 044 313**	**4 969 966**

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Available-for-Sale Financial Assets	4 254 880	3 305 996
Loans and Receivables	1 789 433	1 663 970
	6 044 313	4 969 966
Interest Earned on Non-financial Assets	-	-
	6 044 313	**4 969 966**

25 SERVICE CHARGES

Sale of Electricity	28 550 570	22 219 226
Refuse Removal	5 742 585	2 305 660
Total Service Charges	**34 293 155**	**24 524 886**
Attributable to:		
Continuing Operations	34 293 155	24 524 886
	34 293 155	**24 524 886**

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

26 RENTAL OF FACILITIES AND EQUIPMENT

Operating Lease Rental Revenue:		
- Other Rental Revenue	305 694	296 352
Rental Revenue from Amenities	21 574	20 309
Rental Revenue from Buildings	12 212	7 092
Rental Revenue from Halls	122 715	87 653
Rental Revenue from Land	36 024	20 337
Rental Revenue from Other Facilities	-	4 274
Rental Revenue from Plant Hire	981	-
Total Rental of Facilities and Equipment	**499 200**	**436 017**
Attributable to:		
Continuing Operations	499 200	436 017
	499 200	**436 017**

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

27 GOVERNMENT GRANTS AND SUBSIDIES

National Equitable Share	(71 817 301)	(58 664 724)
Provincial Health Subsidies	(1 407 028)	(1 974 296)
Provincial Road Subsidies	-	-
Operational Grants	(73 224 329)	(60 639 020)
	-	-
Conditional Grants	(62 152 969)	(40 396 831)
National: FMG Grant	(1 200 000)	(1 106 365)
National: MIG Funds	(20 314 611)	(25 876 517)
National: MSIG Funds	(750 000)	(712 626)
National: Department of Mineral and Energy	(30 004 135)	(140 807)
National: National Treasury		(650 658)
Provincial: Treasury	(4 565 228)	(6 094 233)
Provincial: Department Economic Affairs and Trade (DEAT)	(1 387 896)	(3 425 768)
Provincial: Dept Housing, Local Government and Traditional Affairs (DHLGTA)	(105 025)	-
Local Government - Local Municipalities	(1 962 467)	(1 253 887)
Other Government	(1 863 607)	(1 135 970)
Transferred from Deferred Revenue (offset depreciation on assets funded from Grants)	-	-
Total Government Grants and Subsidies	**(135 377 298)**	**(101 035 851)**
Attributable to:		
Continuing Operations	(135 377 298)	(101 035 851)
	(135 377 298)	**(101 035 851)**

Operational Grants:

27.1 National: Equitable Share

Balance unspent at the beginning of the year	-	-
Current year receipts	(71 817 301)	(58 664 724)
Conditions met - transferred to Revenue: Operating Expenses	71 817 301	58 664 724
Conditions still to be met - transferred to Liabilities	**-**	**-**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund operations. All registered indigents on grid electricity, receive 50kWh free electricity per month. For non-grid consumers, R48 per month is contributed towards the maintenance of solar panels.

27.2 Provincial: Health Subsidies

Owed by department at the beginning of the year	360 629	782 884
Current year receipts - included in Public Health vote	(1 155 633)	(2 042 873)
Conditions met - transferred to Revenue	1 407 028	1 974 296
Conditions still to be met - transferred to Current Assets	**965 701**	**714 306**

The Municipality renders health services on behalf of the Provincial Government and is refunded approximately 80% of total expenditure incurred. This grant has been used exclusively to fund clinic services (included in the public health vote in Appendix D). The conditions of the grant have been met. There is a delay or withholding of the subsidy. This matter is discussed at the relevant IGR forum.

27.3 National: FMG Grant

Balance unspent at the beginning of the year		-	(106 365)
Current year receipts		(1 200 000)	(1 000 000)
Conditions met - transferred to Revenue: Operating Expenses		1 200 000	1 106 365
Conditions still to be met - transferred to Liabilities		**-**	**-**

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

27.4 National: MIG Funds

Balance unspent at the beginning of the year		(5 562 619)	(8 746 350)
Interest allocated		(20 905 000)	(22 692 786)
Conditions met - transferred to Revenue: Capital Expenses		20 314 611	25 876 515
Conditions still to be met - transferred to Liabilities	Note 15	**(6 153 009)**	**(5 562 619)**

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B"). No funds have been with held.

27.5 National: MSIG Fund

Balance unspent at the beginning of the year		(750 000)	(212 626)
Current year receipts		750 000	(500 000)
Conditions met - transferred to Revenue: Operating Expenses		-	712 626
Conditions still to be met - transferred to Liabilities	Note 15	**-**	**-**

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. No funds have been with held.

27.6 National - Department of Mineral and Energy

Balance unspent at the beginning of the year		992 947	869 384
Interest allocated		(31 000 000)	(17 244)
Conditions met - transferred to Revenue: Capital Expenses		30 007 053	140 807
Conditions still to be met - transferred to Current Assets	Note 15	-	**992 947**

This grant was used to construct electricity infrastructure as part of the upgrading of informal settlement areas. No funds have been with held.

27.7 National - National Treasury

Balance unspent at the beginning of the year		-	(597 424)
Interest allocated		-	(53 235)
Conditions met - transferred to Revenue: Operating Expenses		-	650 658
Conditions still to be met - transferred to Liabilities	Note 15	-	**-**

The municipality received it's equitable share of National Revenue generated from National Treasury, these funds are used to fund operations and free basic services to the indingent.

27.8 Provincial: Treasury

Balance unspent at the beginning of the year		(9 000 747)	(14 279 013)
Interest allocated		(314 807)	(815 967)
Current year receipts		(1 150 000)	(0)
Conditions met - transferred to Revenue: Operating Expenses		2 269 156	3 707 429
Conditions met - transferred to Revenue: Capital Expenses		2 396 527	2 386 804
Conditions still to be met - transferred to Liabilities	Note 15	**(5 799 871)**	**(9 000 747)**

When demarcated from the province of KwaZulu Natal to the province of the Eastern Cape, the municipality received an establishment grant. This grant was used to cater for the bigger demarcated area and is spent is accordance with a business plan.

27.9 Provincial: Department Economic Affairs and Trade (DEAT)

Balance unspent at the beginning of the year		(1 030 140)	(4 455 908)
Conditions met - transferred to Revenue: Operating Expenses		67 300	3 425 768
Conditions met - transferred to Revenue: Capital Expenses		387 603	-
Conditions still to be met - transferred to Liabilities	Note 15	**(575 237)**	**(1 030 140)**

The municipality received funds to fence the Nature Reserve.

27.10 Provincial: Department Housing, Local Government and Traditional Affairs (DHLGTA)

Balance unspent at the beginning of the year	-	(660 335)
Current year receipts	(105 025)	-
Interest allocated	-	(27 465)
Transfer to HDF	105 025	687 800
Conditions still to be met - transferred to Liabilities	-	-

This grant was allocated to transfer low cost houses to the beneficiaries.

27.11 Local Government - Local Municipality

Balance unspent at the beginning of the year		(2 427 952)	(3 481 839)
Current year receipts		(1 700 000)	(200 000)
Conditions met - transferred to Revenue: Operating Expenses		1 347 958	-
Conditions met - transferred to Revenue: Capital Expenses		1 944 007	1 253 887
Conditions still to be met - transferred to Liabilities	Note 15	**(835 986)**	**(2 427 952)**

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and to contribute in the developement of the IDP and CBP processes.

27.12 Other Government

Balance unspent at the beginning of the year		(1 000 802)	(1 717 741)
Current year receipts		(6 411 750)	(417 917)
Interest allocated		(70 826)	(1 114)
Conditions met - transferred to Revenue: Operating Expenses		1 002 034	1 049 541
Conditions met - transferred to Revenue: Capital Expenses		249 040	86 429
Conditions still to be met - transferred to Liabilities	Note 15	**(6 232 303)**	**(1 000 802)**

Grants received for LED Projects and EPWP incentive.

27.13 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2008), government grant funding is expected to increase over the forthcoming three financial years.

28 PUBLIC CONTRIBUTIONS AND DONATIONS

Donations	15 000	-
Total Public Contributions and Donations	**15 000**	**-**

28.1 Reconciliation of Conditional Public Contributions and Donations

Balance unspent at the beginning of the year	-	-
Current year receipts	15 000	-
Conditions met - transferred to Revenue: Operating Expenses	(15 000)	-
Conditions still to be met - transferred to Liabilities	**-**	**-**

29 OTHER INCOME

Rental Revenue from Other Facilities	193	-
Pool fees	-	19 158
Building plans	136 681	160 867
Building exemption certificates	4 400	6 577
Rates certificates	3 572	4 315
Driveway hardening	-	19 455
Discount received	-	2 632
Tender documents	136 249	72 874
Cemetery fees	39 015	74 353
Pound fees	159 945	171 124
Lost books	558	760
Photo copies	527	686
Housing R2,500	32 227	32 572
Nature Reserve camping	851	1 667
Nature Reserve chalets	14 616	16 523
Nature Reserve Annual licence	10 307	4 728
Nature Reserve Daily fishing	9 912	8 860
Pool fees	17 470	-
Sundry services	644 712	250 755
Wood sales	263	329
Service connections	70 233	92 981
Telephone private calls	3 207	2 703
Electricity connections	116 803	192 291
Total Other Income	**1 401 742**	**1 393 107**
Attributable to:		
Continuing Operations	1 401 742	1 393 107
	1 401 742	**1 393 107**

The amounts disclosed above for Other Income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

30 EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	28 675 609	20 772 133
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	4 813 748	2 935 932
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	1 605 516	1 124 912
Housing Benefits and Allowances	304 273	185 003
Overtime Payments	1 297 495	1 056 473
Performance Bonuses	628 922	410 071
Staff leave	537 820	423 658
Defined Benefit Plan Expense:	(92 809)	231 034
Current Service Cost	(92 809)	231 034
Total Employee Related Costs	**37 770 574**	**27 139 217**
Attributable to:		
Continuing Operations	37 770 574	27 139 217
	37 770 574	**27 139 217**

Remuneration of the Municipal Manager		
Annual Remuneration	691 560	394 825
Car Allowance	230 520	131 608
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**922 080**	**527 930**
Remuneration of the Chief Financial Officer		
Annual Remuneration	514 665	465 875
Car Allowance	132 307	120 697
Company Contributions to UIF, Medical and Pension Funds	170 618	145 496
Total	**817 590**	**732 069**
Remuneration of the Corporate Services Manager		
Annual Remuneration	599 217	547 025
Car Allowance	192 000	182 342
Company Contributions to UIF, Medical and Pension Funds	-	1 497
Total	**791 217**	**730 864**
Remuneration of the Community Services Manager		
Annual Remuneration	419 146	94 142
Car Allowance	150 000	37 500
Company Contributions to UIF, Medical and Pension Funds	81 734	18 732
Total	**650 880**	**150 374**
Remuneration of the EDP Manager		
Annual Remuneration	469 459	497 779
Car Allowance	124 032	144 000
Company Contributions to UIF, Medical and Pension Funds	88 011	89 085
Total	**681 501**	**730 864**

The General Manager EDP, Mrs M E Nombungu vacated her position with the effect of 11 May 2011.

Remuneration of the Infrastructure Manager		
Annual Remuneration	562 000	451 889
Performance Bonus		110 500
Car Allowance	198 000	1 497
Total	**760 000**	**563 887**

Performance Bonusses were accrued but not paid. Payment depends on the result of a performance assesment.

The following compensation was payable to key management personnel in terms of IAS 19 as at 30 June 2011:

Staff Leave Benefits:		
Municipal Manager	103 926	39 109
Chief Financial Officer	17 660	41 292
Corporate Services Manager	82 375	106 762
Community Services Manager	51 034	16 280
EDP Manager	19 355	78 782
Infrastructure Manager	42 950	-
Total	**317 301**	**282 224**

31 REMUNERATION OF COUNCILLORS

Mayor	368 358	346 936
Speaker	303 865	274 543
Executive committee members	1 894 046	1 686 560
Councillors	3 916 076	3 751 022
Company Contributions to UIF, Medical and Pension Funds	1 554 864	1 853 963
Sundry Allowances (Cellular Phones, Housing and Vehicle)	3 308 633	3 241 872
Total Councillors' Remuneration	**11 345 842**	**11 154 896**

In-kind Benefits
The Councillors occupying the positions of the Mayor, Speaker, Chief Wip and 4 Executive Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official Council transportation when engaged in official duties.

The Mayor have use of Council owned vehicles for official duties.

The Mayor is allocated on staff member who acts as a driver and bodyguard.

32 DEPRECIATION AND AMORTISATION

Depreciation: Property, Plant and Equipment	14 784 257	-
Amortisation: Intangible Assets	-	-
Depreciation: Investment Property	-	-
Total Depreciation and Amortisation	**14 784 257**	**-**
Attributable to:		
Continuing Operations	14 784 257	-
Discontinued Operations	-	-
	14 784 257	**-**

33 IMPAIRMENT LOSSES

33.1 Impairment Losses on Fixed Assets

Impairment Losses Recognised:	-	-
Property, Plant and Equipment	-	-
Intangible Assets	-	-
Investment Property	-	-
Impairment Losses Reversed:	-	-
Property, Plant and Equipment	-	-
Intangible Assets	-	-
Investment Property	-	-
	-	**-**

33.2 Impairment Losses on Financial Assets

Impairment Losses Recognised:	4 063 876	7 532 776
Long-term Receivables	-	-
Consumer Debtors	4 063 876	2 613 823
Other Debtors		4 918 953
Investments		
Loans carried at Amortised Cost		
Impairment Losses Reversed:	(3 134 885)	-
Long-term Receivables	-	-
Consumer Debtors	-	-
Other Debtors	(3 134 885)	-
Investments		
Loans carried at Amortised Cost		
	928 991	**7 532 776**

33.3 Impairment of Revenue

Impairment Losses Recognised:	-	-
Assessment Rates	-	-
Service Charges: Electricity	-	-
Service Charges: Refuse	-	-
Service Charges: Sewerage	-	-
Service Charges: Water	-	-
Other Service Charges	-	-
	-	**-**
Total Impairment Losses	**928 991**	**7 532 776**
Attributable to:		
Continuing Operations	928 991	7 532 776
	928 991	**7 532 776**

34 FINANCE COSTS

Loans and Payables at amortised cost	16 298	51 366
Finance Leases	1 912	7 980
Other (including interest on landfill site provision)	36 161	12 342
Bank Overdraft	218	-
Total Interest Expense	54 589	71 688
Less: Amounts included in the Cost of qualifying Assets	-	-
Total Interest Paid on External Borrowings	**54 589**	**71 688**
Attributable to:		
Continuing Operations	54 589	71 688
	54 589	**71 688**

35 BULK PURCHASES

Electricity	16 395 061	12 448 772
Total Bulk Purchases	**16 395 061**	**12 448 772**

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom. Water is supplied directly to residents and businesses by the District Municipality.

36 GRANTS AND SUBSIDIES PAID

FBS Electricity	1 104 418	616 758
FBS Electricity previous year	105 159	40 348
Election: Road Upgrade	1 329 498	650 658
Election: Grant		1 422
FBS Refuse	789	232 075
FBS Refuse previous year	495 928	258 474
Landfill Site management	1 009 896	824 238
New IDP 2007-10	584 117	275 605
Ward commission	-	67 378
Office Rental	391 904	440 150
Valuation	110 088	487 351
Asset audit		952 623
MDF performance management		18 744
MDF ASSET REGISTER	72 696	78 080
CDW Grant		2 643
Capacity building	52 024	68 950
Master Lease Programme		754 000
LU Framework DBSA	-	72 466
Nature Reserve Fencing	67 300	-
Organisational structure	48 298	-
Consumer Awareness	19 041	-
PMS	18 460	-
IDP Support	50 132	-
Khutelani Project	374 637	-
Mokhosi Milling Project	7 583	
Mte Tourism Initiative	49 247	
SDWDP	501 526	-
Establishment plan:maintanance buildings	-	313 279
New valuation establishment plan	-	271 393
FMG	1 200 000	1 106 365
Asset register	-	-
MSIG	750 000	712 626
Housing	105 025	-
NER Elec Upgrade	27 192 982	-
Total Grants and Subsidies	**35 640 749**	**8 245 626**

37 GENERAL EXPENSES

Advertising	318 759	308 752
Audit fees	3 121 159	2 858 530
Bank charges	270 990	132 476
Cartage and rail age	8 320	2 404
Chemicals	49 360	39 863
Conferences	59 472	211 557
Consulting fees	2 453 902	1 854 671
Contingencies	104 866	-
Delegates expenses	1 984 195	1 958 030
Donations	30 000	100 856
Electricity and water	181 392	67 299
Feed	5 468	25 500
Fuel and oil	679 630	452 658
Public entertainment	4 261	14 928
Mayoral Assistance Fund	1 225 512	738 195
Insurance	501 913	485 509
Legal fees	490 888	57 673
Obsolete stock written off	1 327	13 724
Photo copies	83 543	62 160
Plant hire	43 958	25 273
Public Participation	432 457	
Postage	72 717	51 794
Printing, stationary & publications	444 707	437 979
Rates	52 578	
Resealing	729 280	164 517
Skills development	709 233	488 699
Stores and material	287 846	198 401
Subscriptions	67 304	489 841
Motor vehicle registration fees	28 488	14 958
Service connections	108 848	159 674
Telephones	1 040 227	924 526
Uniforms	215 230	167 134
Town planning	73 750	57 249
Total General Expenses	**15 881 581**	**12 564 831**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

37.1 Material Losses	**-**	**1 048 912**
Cable damage in Main Street	-	1 048 912

The cable damage was claimed from the insurance but was not paid out by the insurance.

38 CHANGE IN ACCOUNTING POLICY

The municipality previously opted to take advantage of the transitional provisions on GRAP 12 Inventory, GRAP 17 Property, plant and equipment , GRAP 16 Investment Property and GRAP 102 Intangible assets as set out in Directive 4. Under Directive 4, the Municipality was not required to measure inventory, property, plant and equipment, investment propert or intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP 12 Inventory, GRAP 17 Property, plant and equipment , GRAP 16 Investment Property and GRAP 102 Intangible assets, being 1 July 2008. Furthermore where the initial accounting for inventory, property, plant and equipment, investment propert or intangible assets was incomplete by the end of a reporting period in which the Standard became effective or the transfer occurred, whichever was later, the municipality reported for those items of inventory, property, plant and equipment, investment propert or intangible assets for which the accounting was incomplete at provisional amounts in its financial statements.

At 30 June 2011, the Municipality is no longer able to apply the abovementioned transitional provisions, and thus in terms of Directive 4, the Municipality should retrospectively adjust the provisional amounts recognised to reflect information obtained about facts and circumstances that existed on the effective date of GRAP 12 Inventory, GRAP 17 Property, plant and equipment , GRAP 16 Investment Property and GRAP 102 Intangible assets.

The effect of the Change in accounting policy is as follows:

	2009/2010 Financial statements	
Asset Category	**Cost**	**Accumulated depreciation**
Land and Buildings	34 950 740	-
Infrastructure	128 479 321	-
Community	30 225 007	-
Other	29 815 018	-
Intangible assets	2 144 868	-
Investment Property	18740	
	225 633 694	**-**

	Adjustment	
Asset Category	**Cost**	**Accumulated depreciation**
Land and Buildings	(12 035 940)	(1 572)
Infrastructure	110 493 546	(7 895 612)
Community	53 245 044	(9 979)
Other	(17 228 016)	-4 734 870
Intangible assets	(1 859 868)	-
Investment Property	9 739 515	
	142 354 281	**-12 642 033**

	Restated Amount	
Asset Category	**Cost**	**Accumulated depreciation**
Land and Buildings	22 914 800	(1 572)
Infrastructure	238 972 867	(7 895 612)
Community	83 470 051	(9 979)
Other	12 587 002	-4 734 870
Intangible assets	285 000	-
Investment Property	9 758 255.00	
	367 987 975	**-12 642 033**
Adjustments Reconciled		
Accumulated surplus		-12 642 033
Capitalisation reserve	-8 868 539	
Revaluation reserve	246 745 558	
Goverment grant reserve	-95 522 738	
	142 354 281	**-12 642 033**

Depreciation

The effect of the Correction of Error is as follows:

	2009-2010	**Accumulated surplus**	Restated amount
Depreciation and amortization	-	-12 642 033	-12 642 033
	-	**-12 642 033**	**-12 642 033**

Nature

The reason for the adjustment of Property, Plant and equipment and the effect on depreciation is due to the fact that the financial statements for 2011 will be the first financial statements of the entity that is Grap compliant and the assets were therefore treated as per Grap requirements resulting in the restatement of prior year figures.

39 CORRECTION OF ERROR

During the 2009/2010 financial period a number of errors occurred, which are set out below:

39.1 VAT receivable

A VAT audit was conducted and it was discovered that VAT was not claimed on claimable expenses for the period prior to 30 June 2010. The effect is that Trade Receivables from Exchange Transactions is debited and the Accumulated Surplus is credited. The effect is as follows:

The effect of the Correction of Error is as follows:		**2009/10**	**Correction**	**Restated amount**
		Current Assets	**Current Assets**	
		R	**R**	**R**
Statement of Financial Position				
Trade Receivables from Exchange Transaction				
VAT receivable	Note 5	-	143 859	143 859
Net assets				
Accumulated surplus	Note 22	**-**	(143 859)	(143 859)

Nature

Input VAT is claimable on the acquisition of goods and services for the purpose of making taxable supplies. Refer to VAT 419 guide.

39.2 Operating lease liability

The operating lease liability has been adjusted after taking into account the straightlining of the operating lease payments. The operating lease expenditure has been debited and the operating lease liability credited. The effect is as follows:

The effect of the Correction of Error is as follows:		**2009/10**	**2010/11 (comparative)**	**Restated amount**
		Current Liability	**Current Liability**	
		R	**R**	**R**
Statement of Financial Position				
Current Liabilities				
Operating lease liabilities	Note 16	(15 983)	(21 411)	(37 394)
		2009/10	**Correction**	**Restated amount**
		Expediture	**Expediture**	
		R	**R**	**R**
Statement of Financial Performance				
Expenditure				
Grants and Subsidies Paid		15 983	21 411	37 394
Cash Flow Statement				
Cash generated by Operations				
Surplus/ (Deficit) for the year		-	21 411	(21 411)
Changes in working capital				
Increase/ (Decrease) in Operating lease liabilities		-	21 411	21 411

Nature
Operating lease expenditure should be accounted for on the straightline basis as required by GRAP 13.48. The underpayment as result of the straightlining is disclosed as a liability on 30 June 2010.

39.3 Incorrect allocation of grants

Revenue have been corrected after it was found that an incoorect allocation was used during 2009/10

The effect of the Correction of Error is as follows:	**2009/10**	**2010/11 (comparative)**	**Restated amount**
	Current Assets	**Correction**	
	R	**R**	**R**
Statement of Financial Position			
Trade Receivables from Non-Exchange Transaction	3 917 274	-256 899	4 174 173
Statement of Financial Performance			
Revenue			
Income received from grants	100 778 952	256 899	101 035 851
Nett Assets			
Accumulated surplus	**-**	256 899	-

39.4 Inventory written off

The effect of the Correction of Error is as follows:	**2009/10**	**Correction**	**Restated amount**
	Current Assets	**Current Assets**	
	R	**R**	**R**
Statement of Financial Position			
Inventory	544 503.75	4 421.00	548 925
Statement of Financial Performance			
Expenditure			
General Expenses	12 564 830.89	4 421.00	12 569 252
Nett Assets			
Accumulated surplus	**-**	4 421	4 421

During the year it was found that the write-off of inventory in the prior year was only processed in the current year

39.5 Interest on Grant

During the year it was found that interest on grants were incorrectly treated during the 2009/10 year

The effect of the Correction of Error is as follows:	**2009/10**	**Correction**	**Restated amount**
	Current Assets	**Current Assets**	
	R	**R**	**R**
Statement of Financial Position			
Unspent Conditional Grants and Receipts	18 897 717.60	62 271.00	18 959 989
Statement of Financial Performance			
Other Income	1 330 836.30	62 271.00	1 393 107
Nett Assets			
Accumulated surplus	-	62 271	-

40 CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the Year	45 074 598	42 224 230
Adjustment for:		
Correction of prior year Error	(4 421)	(57 849)
Movement on Landfill site asset	(245 951)	(256 626)
Gains on Disposal of Investment Property		(11 090)
Other Movement on Property, Plant and Equipment (transfer from Finance to Operating Lease)	-	139 610
Capital Transfer to Acc Surplus	44 640	(227 732)
Movement in Non-current assets held for sale	-	(142 586)
Contribution to Retirement Benefit Liabilities and Long Service Award	199 745	415 645
Contribution to Leave	166 385	247 919
Movement in Landfill site Provisions	282 510	264 019
Stock written off	(1 324)	13 723
Movement in Impairment of Debtors Provision	928 991	(3 329 043)
Investment Income	(6 044 313)	(4 969 966)
Accumulated surplus reconciling adjustment		-
Loss on disposal	114 938	-
Depreciation	14 784 257	10 655 758
Finance Costs	54 589	71 688
Operating surplus before working capital changes	**55 354 644**	**45 037 700**
(Increase)/Decrease in Inventories	4 496	(206 566)
(Increase)/Decrease in Non-current assets held for sale	-	142 586
(Increase)/Decrease in Trade Receivables from Exchange Transactions	(9 364 838)	8 263 279
(Increase)/Decrease in Trade Receivables from Non-Exchange Transactions	(6 181 215)	6 045 296
Increase/(Decrease) in Consumer Deposits	(4 295)	9 993
Increase/(Decrease) in Creditors	(1 535 902)	1 068 645
Increase/(Decrease) in Conditional Grants and Receipts	636 417	(15 235 341)
Increase/(Decrease) in Operating Lease Liabilities	-	21 411
Increase/(Decrease) in Provisions	1 073 111	
Cash generated by / (utilised in) Operations	**39 982 418**	**45 147 002**

41 NON-CASH INVESTING AND FINANCING TRANSACTIONS

During the 2010/11 financial year, the municipality settled the finance lease:

Motorvehicle
This finance lease had a carrying value of R10,770 on 1 July 2010. The final payment was made during November 2010

Telephone Systems
These finance leases had a carrying value of R18,447 (2010: R42,947)

Refer to note 17

42 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities	18 446	153 907
Used to finance Property, Plant and Equipment - at cost	(18 446)	(153 907)
Sub-total	-	-
Cash set aside for the Repayment of Long-term Liabilities	-	-
Cash invested for Repayment of Long-term Liabilities	**-**	**-**

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Loan repayments are financed through the operating account.

43 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

43.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:		
Opening balance	-	-
Unauthorised Expenditure current year		-
Approved by Council or condoned	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Unauthorised Expenditure awaiting authorisation	**-**	**-**

43.2 Fruitless and Wasteful Expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	-	-
Fruitless and wasteful expenditure - current year	-	
Fruitless and wasteful expenditure - condoned	-	
Closing balance	-	-

43.3 Irregular Expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:			
Opening balance		-	-
Irregular Expenditure current year		2 898 285	367 552
Condoned or written off by Council		-	-
To be recovered – contingent asset		-	-
Transfer to Trade Receivables from Non-Exchange Transactions	Note 5	(2 898 285)	(367 552)
Irregular Expenditure awaiting condonement		-	-

Incident		Steps taken
Budgeted amounts exceeded:		
Remuneration of Councillors	R 1 249 311.96	Debtor accounts opened and normal credit control policy implemented.
Remuneration of Councillors	R 236 559.56	Debtor accounts opened and normal credit control policy implemented.
Overpayment of staff	R 1 412 413.90	Debtor accounts opened and normal credit control policy implemented.
	R 2 898 285.42	

Staff embarked on industrial action demanding that they be paid according to the preleminary results of the Tasks Job Evaluations. Management agreed in order for the industrial action to be suspended and was later informed that SALGA and the unions deadlocked on the matter and the Task Job Evulaution process was discontinued. Staff signed an acknowledgement that should the money paid to them be incorrect, the money will be recovered.

44 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

44.1 Contributions to organised local government - SALGA

Opening Balance	-	-
Council Subscriptions	286 410	195 555
Amount Paid - current year	(286 410)	(195 555)
Balance Unpaid	**-**	**-**

44.2 Audit Fees

Opening Balance	-	-
Current year Audit Fee	3 121 159	2 858 530
Amount Paid - current year	(3 121 159)	(2 858 530)
Balance Unpaid	**-**	**-**

44.3 VAT

VAT inputs receivables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.

44.4 PAYE and UIF

Opening Balance	-	-
Current year Payroll Deductions	6 105 077	5 303 313
Amount Paid - current year	(6 105 077)	(5 303 313)
Balance Unpaid (included in Creditors)	-	**-**

44.5 Pension and Medical Aid Deductions

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	9 145 471	6 619 742
Amount Paid - current year	(9 145 471)	(6 619 742)
Balance Unpaid (included in Creditors)	**-**	**-**

44.6 Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts outstanding as at:

	Total R	Outstanding up to 90 days R	Outstanding more than 90 days R
30 June 2011			
<u>Council members after 18 May 2011</u>			
MM Mbobo	8 408	797	7 611
NE Kotelana	19 430	398	19 032
AM Saliwavikwa	38 518	-	38 518
VM Mlandu	10 421	199	10 221
Lebese	3 754	199	3 555
V Kondile	100	100	-
SM Ndukwana	100	100	-
SM Mzozoyana	100	100	-
S Mavuka	1 586	199	1 387
Total Councillor Arrear Consumer Accounts	**82 415**	**2 092**	**80 324**

Council members before 18 May 2011

GM Makhashane	1 344	199	1 145
TS Gebashe	498	199	298
Total Councillor Arrear Consumer Accounts	**1 842**	**398**	**1 443**

	Total R	Outstanding up to 90 days R	Outstanding more than 90 days R
30 June 2010			
TS Gebashe	336	177	158
BL Mzimkulu	4 809	1 184	3 626
M Gcabo	1 526	333	1 193
Total Councillor Arrear Consumer Accounts	**6 671**	**1 694**	**4 977**

44.7 Non-Compliance with the Municipal Finance Management Act:
The municipality in the following cases did not comply with the MFMA:
None such cases were identified

44.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

2011

	Type of Emergency	Amount
(i)	in an emergency	2 649 850.52
(ii)	if such goods or services are produced or available from single provider only	863 696.36
(iii)	for the acquisition of special works of art or historical objects where specifications are difficult to compile	-
(iv)	acquisition of animals for zoos and /or nature and game reserves ; or	-
(v)	in any other exceptional case where it is impractical or impossible to follow official procurement processes	8 690 279.65
(vi)	when it is impractical to obtain 3 quotation for small puchases less than 2000	256 499.76
		12 460 326

2010

	Type of Emergency	Amount
(i)	in an emergency	59 346.00
(ii)	if such goods or services are produced or available from single provider only	252 567.45
(iii)	for the acquisition of special works of art or historical objects where specifications are difficult to compile	-
(iv)	acquisition of animals for zoos and /or nature and game reserves ; or	-
(v)	in any other exceptional case where it is impractical or impossible to follow official procurement processes	82 173.00
(vi)	when it is impractical to obtain 3 quotation for small puchases less than 2000	
		394 086.45

Matatiele experienced floods causing dwellings to be submerged with water. Contractors had to be hired to construct temporary sand walls. Further, money was received from the Eastern Cape Department of Co-operative Governance to grade roads to polling stations and to renovation certain of the polling stations. These funds were received at short notice making it impractical to call for tenders. However, three (3) quotations were obtained.

44.9 **Bulk electricity losses in terms of the MFMA s 125 (2)(d)(i)**

Electricity:

Purchased during the year	37 781 145	units (kWh)
Sold during the year	24 443 851	units (kWh)
Unaccounted	10 314 802	units (kWh)
Normal distribution losses - (8%) of electricity purchases	(3 022 492)	units (kWh)
Loss	7 292 310	units (kWh)
Loss %	19.30%	
Loss (R):	4 321 582	

Calculated as follows:	*%*	*Lost units*	*Tariff*	*Value ®*
	100.00	10 314 802	@	**4 321 582**
DOMESTIC	-	10 314 802	0.4190	4 321 582

Electricity losses occur due to *inter alia,* the tampering of meters, faulty meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connection is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

45 COMMITMENTS FOR EXPENDITURE

45.1 Capital Commitments

Commitments in respect of Capital Expenditure:		
- Approved and Contracted for:-	**16 584 767**	**18 273 422**
Infrastructure	16 584 767	18 273 422
Community	-	-
Heritage	-	-
Other	-	-
Housing Development Fund	-	-
Investment Properties	-	-
- Approved but Not Yet Contracted for:-	**-**	**-**
Infrastructure		-
Community	-	-
Heritage	-	-
Other	-	-
Housing Development Fund	-	-
Investment Properties	-	-
Total Capital Commitments	**16 584 767**	**18 273 422**
This expenditure will be financed from:		
External Loans	-	-
Capital Replacement Reserve	-	-
Government Grants	16 584 767	18 273 422
District Council Grants	-	-
Public Contributions	-	-
Own Resources	-	-
	16 584 767	**18 273 422**

45.2 Lease Commitments

Finance Lease Liabilities and Non-cancellable Operating Lease Commitments are disclosed in Notes 16 and 17.

45.3 Other Commitments

No other commitments is applicable to the municipality.

46 FINANCIAL INSTRUMENTS

46.1 Classification

FINANCIAL ASSETS:
In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial Assets	Classification		
Non-current Investments			
Fixed Deposits	Held to maturity	5 295 774	4 610 850
Trade Receivables from Exchange Transactions			
Assessment Rates	Loans and receivables	14 196 236	13 028 815
Electricity	Loans and receivables	5 144 557	1 982 792
Refuse	Loans and receivables	5 051 240	3 011 418
Trade Receivables from Non- Exchange Transactions			
Health Subsidy control	Loans and receivables	965 701	714 306
Sundry Debtors Control	Loans and receivables	53 005	44 603
Housing debtors	Loans and receivables	20 124	33 644
Debtors Interest	Loans and receivables	70 618	129 231
LU Framework DBSA	Loans and receivables	-	283 871
DME Electricity	Loans and receivables	-	992 947
Debtors Sundry	Loans and receivables	10 097 813	7 115 876
Pre-paid expenses	Loans and receivables	629 961	-
S Zuko Consulting	Loans and receivables	266 687	
Bank, Cash and Cash Equivalents			
Short-term Portion of Investments	Held to maturity	78 920 332	62 663 091
Bank Balances	Available for sale	140 514	1 973 269
		120 852 562	96 584 712

SUMMARY OF FINANCIAL ASSETS

Held to maturity:			
Investments	Fixed Deposits	5 295 774	4 610 850
Short-term Investment Deposits	Short-term Portion of Investments	78 920 332	62 663 091
		84 216 107	67 273 941
Loans and Receivables			
Trade Receivables from Exchange Transactions	Assessment Rates	14 196 236	13 028 815
Trade Receivables from Exchange Transactions	Electricity	5 144 557	1 982 792
Trade Receivables from Exchange Transactions	Refuse	5 051 240	3 011 418
Trade Receivables from Non-Exchange Transactions	Health Subsidy control	965 701	714 306
Trade Receivables from Non-Exchange Transactions	Sundry Debtors Control	53 005	44 603
Trade Receivables from Non-Exchange Transactions	Housing debtors	20 124	33 644
Trade Receivables from Non-Exchange Transactions	Debtors Sundry	10 097 813	7 115 876
Trade Receivables from Non-Exchange Transactions	Debtors Interest	70 618	129 231
Trade Receivables from Non-Exchange Transactions	LU Framework DBSA	-	283 871
Trade Receivables from Non-Exchange Transactions	DME Electricity	-	992 947
Trade Receivables from Non-Exchange Transactions	Pre-paid expenses	629 961	-
Trade Receivables from Non-Exchange Transactions	S Zuko Consulting	266 687	
		36 495 942	27 337 502
Available for Sale:			
Bank Balances and Cash	Bank Balances	140 514	1 973 269
		140 514	1 973 269
Total Financial Assets		**120 852 562**	**96 584 712**

FINANCIAL LIABILITIES:

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial Liabilities	Classification		
Long-term Liabilities			
Annuity Loans	Financial liabilities at amortised cost	18 446	153 907
Consumer Deposits			
Electricity	Financial liabilities at amortised cost	305 619	309 913
Creditors			
Trade Creditors	Financial liabilities at amortised cost	4 042 101	6 367 216
Payments received in Advance(trade receivables)	Financial liabilities at amortised cost	1 415 113	809 283
Income received in advance(erven&pre-paid sales of elec)	Financial liabilities at amortised cost	409 648	317 043
Staff Bonuses	Financial liabilities at amortised cost	2 021 422	1 855 037
Other Creditors	Financial liabilities at amortised cost	1 055 587	986 418
Unspent Conditional Grants and Receipts			
National Government Grants	Financial liabilities at amortised cost	6 153 009	5 562 619
Provincial Government Grants	Financial liabilities at amortised cost	6 375 109	10 031 527
Local Government Grants	Financial liabilities at amortised cost	835 986	2 427 952
Other Spheres of Government	Financial liabilities at amortised cost	6 232 303	1 000 162
Bank Overdraft			
Bank Overdraft	Financial liabilities at amortised cost	5 923 899	1 409 824
		34 788 241	31 230 900

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:			
Long-term Liabilities	Annuity Loans	18 446	153 907
Consumer Deposits	Electricity and Water	305 619	309 913
Creditors	Trade Creditors	4 042 101	6 367 216
Creditors	Payments received in Advance	1 415 113	809 283
Creditors	Staff Bonuses	2 021 422	1 855 037
Creditors	Other Creditors	1 055 587	986 418
Creditors	Income received in advance	409 648	317 043
Unspent Conditional Grants and Receipts	National Government Grants	6 153 009	5 562 619
Unspent Conditional Grants and Receipts	Provincial Government Grants	6 375 109	10 031 527
Unspent Conditional Grants and Receipts	Local Government Grants	835 986	2 427 952
Unspent Conditional Grants and Receipts	Other Spheres of Government	6 232 303	1 000 162
Bank Overdraft	Bank Overdraft	5 923 899	1 409 824
		34 788 241	31 230 900
Total Financial Liabilities		**34 788 241**	**31 230 900**

46.2 Fair Value

The Fair Values of Financial Assets and Financial Liabilities are determined as follows:

The management of the municipality is of the opinion that the carrying value of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Financial Assets and Financial Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

	30 June 2011		30 June 2010	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Held to maturity:	84 216 107	84 216 107	67 273 941	67 273 941
Fixed Deposits	5 295 774	5 295 774	4 610 850	4 610 850
Short-term Portion of Investments	78 920 332	78 920 332	62 663 091	62 663 091
Loans and Receivables	36 495 942	36 495 942	27 337 502	27 337 502
Trade Receivables from Exchange Transactions	24 392 033	24 392 033	18 023 025	18 023 025
Trade Receivables from Non-Exchange Transactions	12 103 909	12 103 909	9 314 478	9 314 478
Available for Sale	140 514	140 514	1 973 269	1 973 269
Bank Balances and Cash	140 514	140 514	1 973 269	1 973 269
Total Financial Assets	120 852 562	120 852 562	96 584 712	96 584 712

	30 June 2011		30 June 2010	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL LIABILITIES				
Designated as FVTPL:	34 788 241	34 788 241	31 230 900	31 230 900
Unsecured Bank Facilities:	5 942 346	5 942 346	1 563 731	1 563 731
- Annuity Loans	18 446	18 446	153 907	153 907
- Bank Overdraft	5 923 899	5 923 899	1 409 824	1 409 824
Trade and Other Payables:	28 845 896	28 845 896	29 667 169	29 667 169
- Consumer Deposits	305 619	305 619	309 913	309 913
- Creditors	8 943 871	8 943 871	10 334 996	10 334 996
- Unspent Conditional Grants	19 596 406	19 596 406	19 022 260	19 022 260
Total Financial Liabilities	34 788 241	34 788 241	31 230 900	31 230 900
Net Financial Instruments	86 064 320	86 064 320	65 353 812	65 353 812

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables at Fair Value. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

There were no reclassifications of financial assets during the financial period.

<u>Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities</u>

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments, and the levels have been defined as follows:
Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.
Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	30 June 2011			
	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value	-	84 356 620	-	84 356 620
Short-term Portion of Investments	-	78 920 332		78 920 332
Bank Balances and Cash	-	5 436 288		5 436 288
Total Financial Assets		84 356 620		84 356 620

	Level 1	Level 2	Level 3	Total
	R	R	R	R
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value	-	5 942 346	2 130 380	6 247 964
Unsecured Bank Facilities:				
- Annuity Loans		18 446		18 446
- Other Loans				
- Bank Overdraft		5 923 899		5 923 899
- Payments received in advance			1 824 761	
- Consumer Deposits			305 619	305 619
Total Financial Liabilities		5 942 346	2 130 380	6 247 964
Total Financial Instruments	-	78 414 274	(2 130 380)	78 108 656

30 June 2010

	Level 1	Level 2	Level 3	Total
	R	R	R	R
FINANCIAL ASSETS				
Financial Instruments at Fair Value	-	69 247 210		69 247 210
Short-term Portion of Investments	-	62 663 091	-	62 663 091
Bank Balances and Cash	-	6 584 119	-	6 584 119
Total Financial Assets		69 247 210		69 247 210

	Level 1	Level 2	Level 3	Total
	R	R	R	R
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value	-	1 563 731	1 436 238	1 873 644
Unsecured Bank Facilities:				
- Annuity Loans	-	153 907	-	153 907
- Bank Overdraft	-	1 409 824	-	1 409 824
- Payments received in advance			1 126 326	
- Consumer Deposits	-	-	309 913	309 913
Total Financial Liabilities		1 563 731	1 436 238	1 873 644
Total Financial Instruments	-	67 683 479	(1 436 238)	67 373 566

46.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2010.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 4, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 2 and the Statement of Changes in Net Assets.

46.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the Municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Further quantitative disclosures are included throughout these financial statements.

46.5 Significant Accounting Policies

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.
The Municipality has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

Risks and exposure are disclosed as follows:

Market Risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk
Credit risk is the risk of financial loss to the Municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality's receivables from customers and investment securities.

Liquidity Risk
Liquidity risk is the risk that the Municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note **47.7** to the annual financial statements.

46.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

46.6.1 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents, investments, and loan payables. The Entity is not exposed to interest rate risk on these financial instruments, as the rates applicable are fixed interest rates, except for one loan payable of R4,19 million.

Interest Rate Sensitivity Analysis

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Notes 46.7 and 46.8 below.

Effect of a change in interest rate on interest bearing financial assets and liabilities

		2011 R	2010 R
Financial Assets	**Classification**		
External investments:			
Fixed Deposits	Held to maturity	84 216 107	67 273 941
Bank Balances	Available for Sale	140 514	1 973 269
		84 356 620	**69 247 210**
Interest received			
Interest Earned - External Investments		4 254 880	3 305 996
Interest rate		5%	5%
Effect of a change in interest rate on interest earned from external investments:			
Effect of change in interest rate	%	4%	4%
Effect of change in interest rate	Rand value	3 411 314	2 613 524
Effect of change in interest rate	%	6%	6%
Effect of change in interest rate	Rand value	5 098 447	3 998 468
Outstanding debtors:			
Consumer Debtors	Loans and receivables	24 392 033	18 023 025
		24 392 033	**18 023 025**
Interest received			
Interest Earned - Outstanding Debtors		1 789 433	1 663 970
Interest rate		7%	9%
Effect of a change in interest rate on interest earned from outstanding debtors			
Effect of change in interest rate	%	6%	8%
Effect of change in interest rate	Rand value	1 545 512	1 483 740
Effect of change in interest rate	%	8%	10%
Effect of change in interest rate	Rand value	2 033 353	1 844 200

Financial Liabilities	Classification		
Long-term Liabilities			
Annuity Loans	Not valued at FVTPL	100 191	277 037
Annuity Loans - current portion	Not valued at FVTPL		
		100 191	277 037
Interest paid			
Long-term Liabilities		16 298	51 366
Interest rate %		16%	19%
Effect of a change in interest rate on interest paid on long-term liabilities			
Effect of change in interest rate	%	14%	18%
Effect of change in interest rate	Rand value	14 027	48 595
Effect of change in interest rate	%	16%	20%
Effect of change in interest rate	Rand value	16 031	54 136
Bank Overdrafts and Other			
Bank Overdraft	Not valued at FVTPL	5 923 899	1 409 824
		5 923 899	1 409 824
Interest paid			
Bank Overdrafts and Other		218	
Interest rate %			
Effect of a change in interest rate on interest paid on bank overdrafts and other			
Effect of change in interest rate	%		
Effect of change in interest rate	Rand value		
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	59 457	14 098

48.6.2 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

48.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/ Cash and Cash Equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited creditrating agency.The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with it's investment policy. Consequently, the Entity does not consider there to be any significant exposure to credit risk.

Trade and other receivables

Trade and other receivables are amounts owing by consumers, and are presented net of impairment losses. The Municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness., subsequently the Municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:
- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- through the requirement of a deposit for new service connections, serving as guarantee
- through encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.. The Municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	2011 R	2010 R
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Fixed Deposit Investments	5 295 774	4 610 850
Consumer Debtors	24 392 033	18 023 025
Other Debtors	12 103 909	9 314 478
Bank, Cash and Cash Equivalents	140 514	1 973 269
Maximum Credit and Interest Risk Exposure	**41 932 230**	**33 921 621**

	2011 R	2010 R
The major concentrations of credit risk that arise from the Municipality's receivables in relation to customer classification are as follows:		
Consumer debtors:		
Household	69%	77%
Industrial/Commercial	8%	10%
National and Provincial Government	23%	12%
	100%	100%

46 FINANCIAL INSTRUMENTS (Continued)

46.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 47 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

<u>Liquidity and Interest Risk Tables</u>

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. A credit line overdraft facility is available and is unsecured. Interest payable is linked to the prime interest rate.

The following tables detail the municipality's expected maturity of it's non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

30 June 2011

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
FIXED RATE INSTRUMENTS			108 748 653	**-**	**103 452 879**	**5 295 774**	**-**	**-**
Fixed Deposits	**11**	**5.00%**	84 216 107		78 920 332	5 295 774	-	-
Bank Balances	**7**	**4.00%**	140 514		140 514			
Trade Receivables from Exchange Transactions	**5**		24 392 033		24 392 033			
NO_INTEREST BEARING INSTRUMENTS			**12 103 909**	**-**	**12 103 909**	**-**	**-**	**-**
Trade Receivable from Non-Echange Transactions	**6**		12 103 909	-	12 103 909	-	**-**	-
			120 852 562		**115 556 787**	**5 295 774**		**-**

30 June 2010

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
FIXED RATE INSTRUMENTS			67 273 941	**-**	**4 610 850**	**62 663 091**	**-**	**-**
Fixed Deposits	**11**	**5.00%**	67 273 941		4 610 850	62 663 091	-	-
Bank Balances	**7**	**4.00%**			1 973 269			
Trade Receivables from Exchange Transactions	**5**				18 023 025			
NO_INTEREST BEARING INSTRUMENTS			**9 314 478**	**-**	**9 314 478**	**-**	**-**	**-**
Trade Receivable from Non-Echange Transactions	**6**	**10.00%**	9 314 478	-	9 314 478	-	**-**	-
			76 588 419	**-**	**13 925 327**	**62 663 091**	**-**	**-**

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

30 June 2011

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
Not-interest Bearing			9 249 490	**-**	**9 249 490**	**-**	**-**	**-**
Fixed Deposits			305 619	-	305 619	-	-	-
Creditors			8 943 871		8 943 871			
Fixed Interest Rate Instruments			**18 446**	**-**	**18 446**	**-**	**-**	**-**
Short term loans		**19.00%**	18 446	-	18 446	-	**-**	-
			9 267 936		**9 267 936**			

30 June 2010

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
Not-interest Bearing			10 644 909	**-**	**10 644 909**	**-**	**-**	**-**
Fixed Deposits			309 913	-	309 913	-	-	-
Creditors			10 334 996		10 334 996			
Fixed Interest Rate Instruments			**153 907**	**-**	**135 461**	**18 446**	**-**	**-**
Short term loans		**17.55%**	153 907	-	135 461	18 446	**-**	-
			10 798 816	**-**	**10 780 370**	**18 446**	**-**	**-**

46.9 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

46.10 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 47 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

	2011	2010
	R	R

47 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:
(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
(iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

Defined benefit plan accounting as required by IAS 19 / AC 116 have been exempted in terms of General Notice 522 of 2010 and had not been applied for the previous or current financial year.

Natal Joint Municipal Pension Fund:
The scheme is subject to a bi-annual actuarial valuation. The last statutory valuation was performed as at 30 September 2007 and has been valued by making use of the Discounted Cash Flow method of valuation.

Fund options	Member	Municipality
Super	9.25%	25.00%
Retirement A	8.65%	29.00%
Surcharge	7.00%	15.35%
Retirement B	7.00%	13.65%
Provident	5.00%	9.75%
Provident	7.00%	13.65%
Provident	9,25%	18.00%

The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006 14%
- From 1 July 2007 17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

Cape Retirement Fund:
No details could be provided for the fund and of any valuation performed.

A contribution rate is paid by the employees (9%) and municipalities (18,00%). Rates applicable to the section 57 employees (7.5%) and municipality (19.5%).

Municipal Employees Pension Fund:
No details could be provided for the fund and of any valuation performed.

A contribution rate is paid by the members (7,50%) and municipalities (18,00%).

Municipal Councillor Pension Fund:
No details could be provided for the fund and of any valuation performed.

A contribution rate is paid by the members (13.75%) and municipalities (15,00%).

South African Municipal Workers Union National Provident Fund:
The SAMWU National Provident Fund is a defined contribution scheme. The last actuarial valuation of the fund was performed at 30 June 2005, and certified as being in a financially sound position. The next statutory valuation was due on 30 June 2008, but is

A contribution rate is paid by the members (7,50%) and municipalities (18,00%).

None of the above mentioned plans are State Plans.

48 RELATED PARTY TRANSACTIONS

48.1 Interest of Related Parties
Councillors and/or management of the municipality had no relationships with businesses to management's best knowledge.

48.2 Services rendered to Related Parties
During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

	Rates Charges R	Service Charges R	Outstanding Balances R
For the Year ended 30 June 2011			
Councillors	54 487	29 771	84 258
Municipal Manager and Section 57 Personnel			
Total Services	**54 487**	**29 771**	**84 258**
For the Year ended 30 June 2010			
Councillors		6 671	
Municipal Manager and Section 57 Personnel			
Municipal Entities			
Total Services		**6 671**	

48.3 Purchases from Related Parties

The municipality bought goods and services from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Date of transaction	Purchases 2011
Total Purchases			**-**

48.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 31 and 32 respectively, to the Annual Financial Statements.

No other related party transactions occurred during the 2010/11 financial year.

49 CONTINGENT LIABILITIES

49.1 Litigation and Claims:	**2 000 000**	**-**
Matatiele Local Municipality / VNJN Trading JV: Claim against the municipality handled by R A Matubatuba and Associates. This compliant is regarding the rehabilitation of the Roads and Storm Water in the Greater Cedarville area in terms of contract R/E/1974/07/08. Possible obligation to the municipality.	-	-
Matatiele Local Municipality / T S Ntsalla: Claim against the municipality handled by Barkers Attorneys. This is under case number D225/11. There is no further information available for this case. Possible obligation to the municipality.	2 000 000	-

50 CONTINGENT ASSETS

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

51 IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any In-kind Donations and Assistance during the year under review.

52 COMPARISON WITH THE BUDGET

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".

53 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the financial year 2010/2011.

54 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2011.

55 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Prior Period Errors

55 BUDGET VERSUS ACTUAL EXPENDITURE

The financial results of the year under review can be summarised as follows:

	2 011 Actual Income	2 011 Budgeted Income	2 010 Actual Expenditure	2 010 Budgeted Expenditure
Executive and Council	1 811 420	3 100 132	20 083 880	22 940 899
Finance and Administration	92 520 063	101 187 967	17 296 926	31 650 361
Planning and Development	1 658 192	8 133 460	4 244 147	10 866 494
Health	1 407 028	1 728 618	1 393 847	1 728 618
Community and Social Services	5 418 296	7 940 574	12 888 960	12 088 930
Housing	111 505	6 434	110 627	325 756
Corporate Services	435 549	1 764 380	9 912 711	9 007 518
Public Safety	0	0	0	0
Sport and Recreation	0	0	0	0
Waste Management	8 666 556	11 151 651	6 056 102	11 089 448
Roads and Transport	20 315 591	31 077 620	22 631 287	34 947 739
Electricity	60 083 352	63 249 229	25 449 201	26 698 195

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